WCB-Alberta 2006 Annual Report *Working Progress*

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ALBERTA
EMPLOYMENT, IMMIGRATION AND INDUSTRY

Office of the Minister

It is a pleasure for me to be involved for the first time with the Workers' Compensation Board annual report. As a strong supporter of providing a hand up when it's needed most, I am proud to be the minister responsible for a system that protects workers and employers from the full impact of work-related injuries and illness. Albertans should be proud of the WCB's strong efforts to educate and deliver programs targeted toward safe workplaces.

In 2006, 1.78 million Alberta workers and employers under the Workers' Compensation Act focused on safety and good disability management. Their efforts, with the support of the Workers' Compensation Board and the Ministry of Employment, Immigration and Industry, are making a difference. The 2006 time-lost claim rate dropped to 2.3 time-lost claims per 100 workers, signalling better coordination of medical and rehabilitation services. Employers played a big part through good claim reporting and support for their employees' return-to-work efforts.

We need even greater vigilance, however, so we are looking beyond time-lost claims to the disabling-injury rate, which confirms that Albertans are still being hurt on the job too often. We will reduce this rate through our commitment to making Alberta's workplaces safer, because our primary purpose is to prevent injuries and illnesses.

These are exciting times for the province of Alberta. We are blessed with opportunities that are unprecedented in our history. Each and every day, hundreds from across the country and around the world are calling Alberta home for the very first time. Employers, the government and the workers themselves must do everything possible to ensure that every worker arrives home safely at the end of the workday.

Through the efforts of employers, those in the field of occupational health and safety and those who work for the Workers' Compensation Board, I am confident we will continue to bring stability and protection to Alberta workplaces. We can achieve better results when we work together to the benefit of all Albertans.

Iris Evans
Minister
MLA for Sherwood Park Constituency

208 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 Telephone 780/415-4800 Fax 780/422-9556

David Carpenter
Chair, Board of Directors

Guy Kerr
President & CEO

It is a rare and special privilege to be part of an organization that has clarity of purpose and a steadfast focus on what is right.

We share a common purpose: to help injured workers regain independence

Each of us has different responsibilities, from the Board of Directors to the support staff and customer service teams. Yet we share a common purpose: we exist to help injured workers regain independence and return to work, and to protect employers from the full impact of work-related injuries.

The workers' compensation system is complex and reflects the needs of a diverse group of stakeholders. We are entrusted with the responsibility of balancing those needs to keep the system strong and lasting. Our strategic focus on return to work, bolstered by a foundation of ethics and fairness, helps define our actions. Return to work is what drives us, and it's how we monitor our impact.

With that goal, we made good progress in 2006:

- We continued to reduce the time injured workers were off the job, with the lowest claim duration on record.
- We improved the quality and timeliness of medical, rehabilitation and vocational care.
- We strengthened our financial position, which resulted in the lowest average premium rate in the country for the third straight year.

The achievements of the past few years come from many places: injured workers who persevere, employers who care enough to invest in their employees, safety associations that drive change, and the Ministry of Employment, Immigration and Industry, which provides support.

The system relies especially on great WCB employees. Without their compassion and conviction, we could not achieve our goals. We work hard to attract skilled, committed people; our inclusion in Alberta's Top 25 Employers list is a clear indicator of the quality of our workplace. We are proud that, despite a highly competitive economy, we have maintained almost 90 per cent retention, an undeniable asset for consistency of service to our clients.

Employers are focusing more and more on safety, but workplace injuries still occur. Injured workers need support and services to recover and return to work safely. Employers need the security of knowing their workers will receive the help they require to return as healthy, productive employees. WCB-Alberta provides the benefits and comprehensive services needed for an appropriate and timely recovery. In 2006, an all-time-high 92.4 per cent of injured workers returned to work safely.

Through the payment of premiums, 127,701 Alberta employers funded the workers' compensation system for 1.65 million working Albertans in 2006.

Injury Prevention | Injury Reporting | Case Planning | Modified Work | Return to Work

and to protect employers from the full impact of work-related injuries.

We continue to make progress as a province and as an organization. The next stage in the evolution of the system is to extend our focus to all disabling injuries—not just time-lost claims. While time-lost claims remain the benchmark for rate-setting purposes, they don't tell the whole story about safety in our province. We are convinced this province has the ability to improve; we need our collective will to make it happen.

We both look forward to a renewed commitment from all partners in 2007 to bring passion to the business of reducing the frequency and impact of workplace injuries in Alberta. We all share the responsibility to do more and do better. *That's* working progress.

David B. Carpenter
Chair, Board of Directors
Workers' Compensation Board - Alberta

Guy R. Kerr
President & CEO
Workers' Compensation Board - Alberta

Good governance brings clarity to decision making, ensures accountability and defines the roles of WCB's board and senior management. The WCB Corporate Governance Policy defines the Board of Directors' responsibilities, authority and administration.

As part of its key responsibilities as directed by the governance policy, the Board of Directors:

- Focuses on the strategic direction of the Workers' Compensation Board and
- Monitors results through approved corporate objectives and performance measures.

2006
Board of Directors

David Carpenter
Chair, Board of Directors

Guy Kerr
President & CEO

The Board of Directors is accountable to all Albertans. In turn, the board holds WCB's

The board's composition ensures a range of stakeholder insights, which promote balance in the interests of stakeholders and ensure full discussion and informed decisions that work to protect the workers' compensation system.

The Board of Directors is accountable to all Albertans through the minister responsible for the Workers' Compensation Act. In turn, the board holds WCB's Strategic Management Council, led by President and CEO Guy Kerr, responsible for:

- Setting corporate objectives that deliver good customer results,
- Implementing policy and
- Conducting the business of the organization in a way that demonstrates our commitment to fairness.

Willard Kirkpatrick
Don Oborowsky
Fauzia Lalani

Representative of the interests of Employers

Timothy Brower
Mark McCullough
Richard Mirasty

Representative of the interests of Workers

Jim Kallal
Norbert Van Wyk
Tom Shields

Representative of interests of the General Public

Board Committees

The committees of the Board of Directors review information from all areas of the business, and identify and assess risks to help the WCB make decisions.

Audit Committee

The Audit Committee oversees the audit and risk management functions of the organization, including financial statements, the annual report, external audit processes and management audit.

Finance Committee

The Finance Committee oversees the organization's financial strategies and performance, from the budget and financial plan to economic and business assumptions, premium-rate-setting and investment management.

Governance Committee

The Governance Committee monitors and reports on good corporate governance and ensures that the board's governance policy reflects best practices. It is also responsible for board orientation, development and evaluation.

Human Resource and Compensation Committee

The Human Resource and Compensation Committee reviews and considers recommendations on human resource management philosophies and guidelines, corporate goals and performance, and executive compensation and succession plans.

Policy Committee

The Policy Committee reviews policies and legislative changes related to benefits and premiums. It also ensures stakeholder involvement in relation to policy development and revision.

Strategic Management Council responsible for conducting day-to-day business.

2006 Strategic Management Council

The Strategic Management Council provides the leadership, direction and tools for our employees to do good work.

By working together, the Board of Directors and the Strategic Management Council ensure we are working with our partners to significantly and measurably reduce the impact of workplace illness and injury on Albertans.

From left to right:

Dieter Brunsch	V.P. Customer Service and Risk Management
Ron Helmhold	Chief Financial Officer
Wendy King	V.P. Customer Service and Disability Management
Guy Kerr	President & CEO
Douglas Mah	Secretary and General Counsel
Roxy Shulha-McKay	V.P. Employee and Corporate Services
Jim Wheadon	V.P. Communications and Information Management

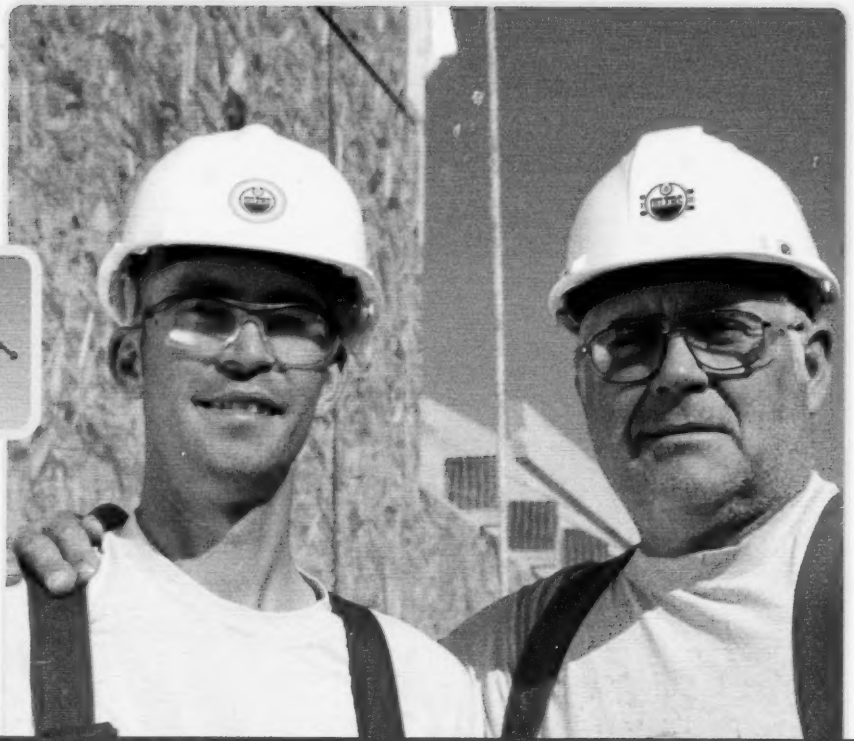
Working *Progress*

Our responsibility comes to life through the stories of our partners.

WCB-Alberta *and its stakeholders are constantly trying to meet the challenge to improve. We work as individuals and organizations to reduce injuries, enhance claims management, build up safety and financial resources and do right by injured workers. Together, we've built a strong foundation, but as partners we can—and must—continue to progress.*

WCB remains committed to working together with our partners to significantly and measurably reduce the impact of workplace illness and injury on Albertans. We all share the responsibility for helping the workers' compensation system work effectively.

This responsibility comes to life through the stories of the people—injured workers, employers, health care providers and WCB employees—who make a difference every day. Each story represents the combined efforts of many organizations and people who work within a complex system. And when the stories end, they show that when we all work together, we make working progress.



The fall that wasn't

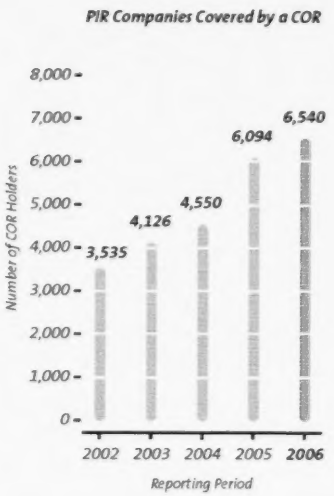
Proper precautions help worker avert danger

If you don't take precautions, somebody's going to get hurt.

"John went over!" Those three small words struck terror in the heart of Darrell Gabrys. As the experienced framer rounded the corner of the house his crew was sheathing, he saw his 30-year-old son dangling off the edge of the roof over a concrete foundation peppered with upright rebar.

It was a snowy March day, and John slipped while working on a steep roof. Darrell was relieved to see John was wearing a safety harness. The jerk of the harness put a lot of pressure on John's body, but it was nothing compared to the impact of a fall.

Darrell spent years training John, ensuring he never took on tasks without a full understanding of the risks. The whole crew of D & J Gabrys Contracting goes beyond the recommended safety guidelines to ensure they're safe. "This isn't pushing donuts across the counter," Darrell explains. "If you don't take precautions, somebody's going to get hurt." Those are words John can live by.



JOHN AND DARRELL GABRYS *try to set a good example of safety on the job*

Injury Prevention

A key component of the Partners in Injury Reduction (PIR) program is the achievement of a Certificate of Recognition (COR). Employers earn a COR by successfully implementing an effective workplace health and safety system. With good claim performance, these employers are eligible for an annual PIR rebate. In 2006, the number of PIR companies covered by a COR increased by seven per cent.

MARTINE GALVIN-RIGLEY
opens claim communication quickly by reporting injuries on time

Dealing with an injury right away is so important in the claim process.

Online and on time

eLink helps employer report injuries immediately

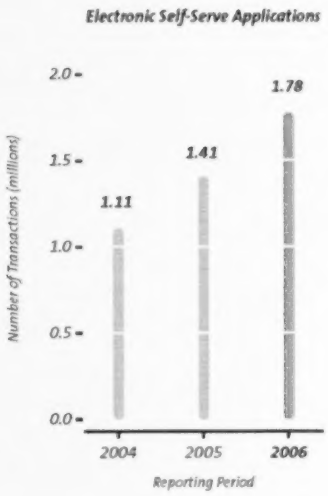
"Health and safety is an attitude, all day, every day," says disability coordinator Martine Galvin-Rigley.

Trican Well Service Ltd. doesn't take its commitment to injury prevention lightly. Nor does it shirk its responsibility to report injuries quickly when they happen.

WCB's eLink online service has made injury reporting faster for Trican, which employs around 1,400 people in Alberta. The service has also made life easier for the company's administrative staff.

"If they get a call about an injury from the field, they can start filling out an electronic report while they get the details over the phone."

The system creates a new claim instantly when an employer submits a report online, and a WCB adjudicator reviews the file within hours. The result is an earlier start to managing the claim, with the ultimate goal of the worker's safe return to work—another bonus for Martine. "It's one of the reasons dealing with an injury right away is so important."



Injury Reporting *When an injury occurs, early reporting results in faster claim and benefit decisions. This is an important step in returning injured workers to the job. WCB's online services, which include electronic injury reporting, make it easier for employers to manage their accounts and claims. In 2006, more employers took advantage of these services; electronic self-serve transactions increased by 26 per cent.*

Closed door, open window

Case plan keeps injured worker optimistic

"I thought, 'I'm never going to see my family again,'" says Kent Gjerlaug. After entangling in a piece of machinery on an oil rig, Kent's arm hung from the rest of his body by only tissue and nerve matter. Picking it up, he stumbled off the rig and was airlifted to a Calgary hospital.

Miraculously, the medical team reattached Kent's arm. This newly married husband and father was relieved and thankful, but worried about his future.

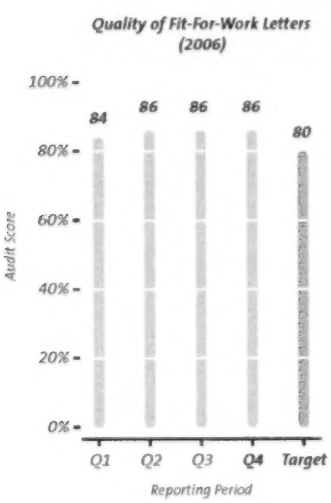
Enter WCB case manager Colleen Bamford. She developed his case plan, a step-by-step medical and vocational strategy that defined his recovery and return to work.

"A case plan is like a road map," explains Colleen. "We know the starting point and destination, but often there are detours. It's a collaborative process, and sometimes we need to modify our map to keep moving forward."

Kent's next step is to complete a business diploma. Although his arm is still weak, his spirit remains strong. And, he says, his family's future is once again bright.

KENT GJERLAUG
credits his case manager for understanding what he needed to move ahead after his injury

A case plan is like a road map that keeps us moving forward.



Case Planning *WCB's case planning model includes key decision-point letters that keep workers and employers informed and involved. Clear, well-written letters show how we make decisions and highlight future steps. Clients received good information about claim decisions in 2006; we achieved an 86 per cent quality rating on key decision letters.*

GARRY MUZECHKA
has found a different way to work since his injury

An injured worker doing modified duties is an asset to his organization.

Back on track

Modified duties help worker regain life as he knew it

"Who the hell did this to me?" That was Garry Muzechka's first thought following a severe workplace accident that nearly cost him his life.

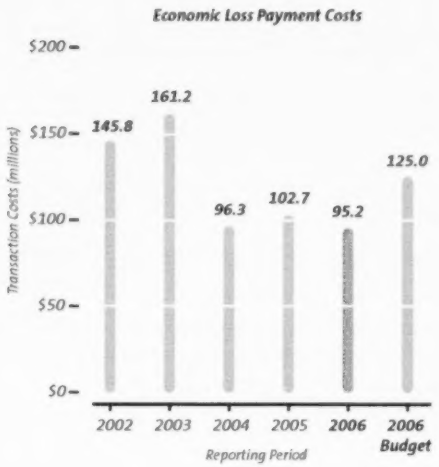
The 53-year-old welder was disassembling a pressurized valve when it blew, sending a 40-pound spinning disc into his face. The force split his face almost in half. Garry spent the next six weeks in hospital, undergoing a complete facial reconstruction.

Since then, the Millard Health Head Trauma Program has been Garry's second home, where he has made huge strides in regaining movement and strength.

Getting better meant a return to the life he knew before the accident. Although he can't weld at this time, Garry performs modified duties with his employer, Kinetic Projects Inc., working part-time in quality control.

"Kinetic opened their doors to me. They have been great."

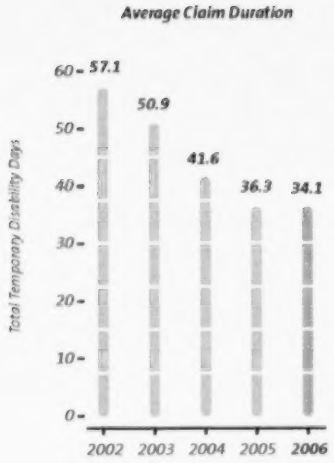
Quality control was a natural fit for Garry, says branch manager Dwayne Boettger of Kinetic. "His background in welding means he doesn't have a huge learning curve. That, plus his dependability, makes him a great asset."



Modified Work

When workers can't return to pre-accident jobs and earnings, we make economic loss payments (ELPs) to top up their income. By helping more workers maximize their post-accident earnings in 2006, wage top-ups required through ELPs were 23.8 per cent under budget.

The sooner we provide workers with access to vocational rehabilitation services, the better their chances of returning to work. We exceeded our target for referral cycle times in 2006 by improving 15.5 per cent over the 2005 baseline.

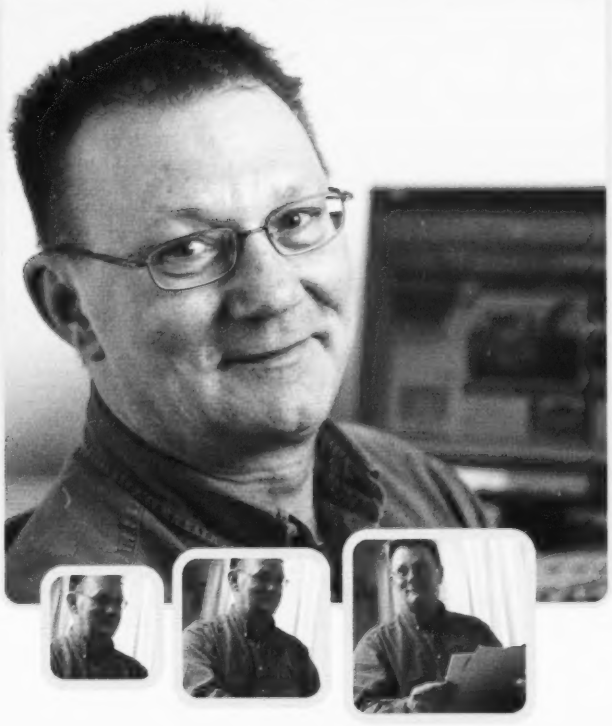


Return to Work

Each day of disability makes it tougher for injured workers to get back to work safely. To help them return to work, we must provide efficient service. One measure of service is the number of cases lasting longer than three months. In 2006, we exceeded by over 10 per cent our target for resolving these cases.

Transaction year claim costs reflect the commitment of employers to injury reduction and good disability management. The combined efforts of all stakeholders in 2006 brought costs in at $41.0 million (6.7 per cent) under budget.

Return to work allows injured workers to focus on the future.



DALLAS MCINTOSH
is looking ahead again after a traumatic stop in his career

Rediscovering success

Electrical worker gets back to his future

In June 2005, the world as Dallas McIntosh knew it came to a grinding halt. He was involved in a single motor vehicle accident that severely damaged his lower spinal cord.

Dallas was determined to overcome the challenges of his recovery, and in November 2006, he began a gradual return to work. Given Dallas's restricted mobility—his injury significantly impairs his ability to walk—he could not return to his job as an electrical manager at Bucyrus Canada's Edmonton office.

Dallas and his WCB case manager, physicians and employer worked together to come up with a solution. They wanted to accommodate his work restrictions but still enable him to use his extensive knowledge and expertise in the mining industry. The result? Dallas transitioned into a new position as senior shop coordinator.

"A gradual return to work helped me adapt to my new work environment and a new role," says Dallas.

It also allowed him to move forward in his recovery and get his focus back to his future.

VISION *Albertans working—a safe, healthy and strong Alberta*

MISSION *WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.*

Summary of Claims Administered

		2006		2005
Active claims as of January		26,583		25,277
New time-lost claims	37,577		36,305	
New medical-aid-only claims	143,582		132,380	
Total new claims reported	181,159		168,685	
Recurrent claims[1]	15,589		15,471	
	196,748	196,748	184,156	184,156
Total claims administered		**223,331**		**209,433**

[1] Previously inactive claims that required further adjudication or case management. Claims may reopen for a number of reasons such as payments for medical aid or requests for further compensation benefits.

New claims by nature of injury

	2006	2005
Sprain or strain	59,586	55,559
Superficial wound	34,216	31,002
Open wound	32,413	30,271
Occupational illness	12,251	10,994
Fracture, dislocation or nerve damage	8,184	7,563
Burn or scald	5,706	5,616
Multiple traumatic injuries	3,573	2,802
Intracranial injury	996	853
Environmental conditions	282	200
Other traumatic injury	15,372	15,125
Non-personal damage	577	590
Unclassified	8,003	8,110
TOTAL	**181,159**	**168,685**

Non-eligible claims

	2006	2005
TIME-LOST CLAIMS		
Insufficient information available to process claim	204	160
Not covered under Workers' Compensation Act	145	189
Injury or illness not arising out of/in course of employment	2,097	2,398
MEDICAL-AID-ONLY CLAIMS		
Insufficient information available to process claim	3,874	4,080
Not covered under Workers' Compensation Act	1,422	1,239
Injury or illness not arising out of/in course of employment	3,033	2,813

Return to work with new or accident employer

	2002	2003	2004	2005	2006
Total return to work	87.4%	86.8%	88.5%	91.0%	92.4%
Return to accident employer	84.3%	83.8%	85.8%	88.4%	90.1%
Return to other employment	3.1%	3.0%	2.7%	2.6%	2.3%

Number of modified-work-only claims as a percentage of claims reported[2]

2002	2003	2004	2005	2006
8.0%	9.8%	12.3%	13.6%	14.9%

[2] The methodology for calculating modified-work-only claims has been refined. Accordingly, prior-year percentages have been restated.

New claims by part of body

	2006	2005
Finger(s)	27,141	25,393
Back	26,962	25,952
Hand(s) or wrist(s)	20,182	19,097
Chest or shoulder(s)	15,911	14,741
Eye(s)	15,029	14,185
Foot (feet), toe(s) or ankle(s)	13,790	12,561
Arm(s)	13,262	12,506
Head	11,353	9,847
Knee(s)	9,703	8,919
Multiple parts	9,095	7,742
Leg(s)	5,898	5,479
Neck	3,223	3,248
Hip or pelvis	2,249	2,323
Ear(s)	2,481	2,169
Body system(s)	2,215	1,794
Abdomen	1,085	1,092
Non-personal damage	598	617
Unclassified	982	1,020
TOTAL	**181,159**	**168,685**

Premium revenue of **$1,003.3 million** exceeded budget by $142.4 million and was up $24.4 million from 2005, reflecting wage and employment growth, primarily in the construction sector.

Average premium rate of **$1.63** per $100.00 of insurable earnings was $0.06 over budget. This is 10.9 per cent lower than the average rate collected last year.

Investment revenue of **$718.2 million** was a key driver of WCB's strong financial performance. The result was $256.9 million better than budget and $162.0 million higher than 2005.

Claim costs of **$877.0 million** were $67.7 million under budget and $16.0 million higher than 2005. The budget savings were due primarily to continued improvement in claim resolution and return-to-work outcomes.

Administration expenses of **$66.4 million** were 0.6 per cent under budget and $3.2 million higher than 2005.

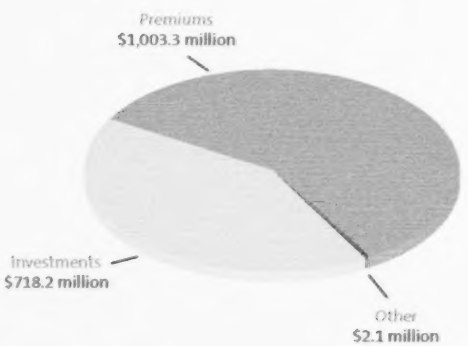
Operating surplus of **$749.4 million** was $469.4 million better than budget and $163.8 million more than 2005.

Funded position of **$1,812.7 million** increased by $286.5 million over 2005.

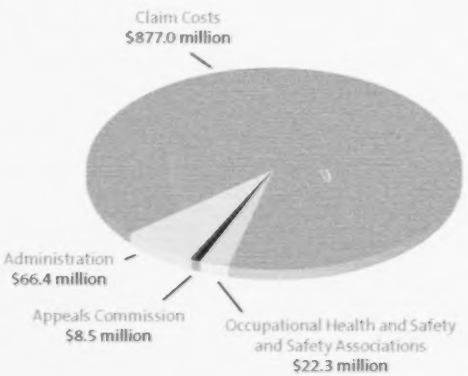
Investment portfolio **increased by $523.6 million**, or 8.7 per cent over 2005 on a fair-value basis.

Claim benefit liabilities **rose by $231.0 million**, or 5.5 per cent over 2005.

Revenue Breakdown:
$1,723.6 million



Expenses Breakdown:
$974.2 million



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Management Discussion and Analysis of 2006 Financial Statements and Operating Results

The Management Discussion and Analysis (MD&A) provides management's perspective on key issues that affect current and future performance of the Workers' Compensation Board of Alberta (WCB-Alberta, WCB). The MD&A, prepared as at March 21, 2007, should be read in conjunction with the audited financial statements and accompanying notes for the year ending December 31, 2006.

Forward-looking statements

This report may contain forward-looking statements about certain matters that are by their nature subject to many risks and uncertainties, which may cause actual results to differ materially from the statements made herein. Forward-looking statements include, but are not limited to, WCB objectives, strategies, targeted and expected financial results and the outlook for WCB's business or for the Alberta and global economies. Risks and uncertainties include, but are not limited to, changing market, industry and general economic factors or conditions; changes in legislation affecting WCB policies and practices; changes in accounting standards; the ability to retain and recruit qualified personnel; and other risks, known or unknown. Some are predictable or within WCB control; others are not. The reader is hereby cautioned not to place undue reliance on these forward-looking statements.

Unless otherwise indicated, all amounts shown are in millions of Canadian dollars.

Business Overview

Founded in 1918, the Workers' Compensation Board is a not-for-profit organization with a legislative mandate under the Workers' Compensation Act (the Act) to administer the workers' compensation system for the province of Alberta. While accountable to the Minister of Employment, Immigration and Industry, WCB is not a provincial government department or crown corporation, but is independently funded and operated as an insurance enterprise. Through the payment of premiums, over 127,000 employers fund the system, covering more than 1.65 million workers.

WCB mandate

In Canada, workers' compensation is a no-fault disability insurance system that protects both employers and workers against the economic impact of work-related injuries and occupational diseases. Based on the Meredith Principle,[1] the system covers injured workers for lost employment income and provides health care, rehabilitation and other services arising from a work-related injury, regardless of cause, while employers are shielded from litigation. This system brings economic stability to the workplace through collective liability that minimizes the risks and expenses of injury. To achieve these objectives, the Act establishes an Accident Fund and imposes a statutory obligation on the WCB to ensure that it be fully funded.

At the highest and simplest level, WCB-Alberta is involved in two significant and complementary business activities: customer operations and financial management.

Customer operations provide disability insurance for workplace injuries. Key business processes include assessment and collection of premiums from employers, payment of compensation benefits to injured workers and return-to-work services, in accordance with WCB's mandate.

[1] Refer to the Glossary for an outline of the concepts.

Financial management uses an integrated risk-based approach to manage assets and liabilities to generate an adequate return on invested assets to pay for claim-related obligations. Key business processes include strategic financial planning, rate setting, investment management, claim liability valuation and financial-performance reporting. Strong financial management not only ensures benefit security for workers and fair premiums for employers, but also provides the appropriate tools for evaluating how WCB is meeting its financial obligations.

WCB Vision and Mission Statements

The core principles as set out in WCB's vision and mission shape those corporate beliefs and values that guide operating philosophy:

Vision

Albertans working—a safe, healthy and strong Alberta

Mission

WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.

WCB's vision is to make a positive and lasting impact on Alberta's people, society and economy through what it does, while the mission statement describes the operating philosophy for how it intends to conduct business.

Overview of 2006 Financial Results

Over the past three years, WCB-Alberta has seen significant year-over-year gains in all business areas. Fiscal 2006 results cap yet another milestone year for both customer operations and financial management. Although revenue growth and balance sheet strength were largely powered by macroeconomic forces, WCB's commitment to operational excellence also contributed substantially to the record financial performance.

Total revenue of $1,723.6 million, offset by total expenses of $974.2 million, yielded an operating surplus of $749.4 million, which represents an increase of 28.0% over the $585.6 million surplus in 2005. These operating results increased the funded position to $1,812.7 million, or 136.5%, which is net of a special dividend of $443.3 million payable in 2007. While this dividend arises from strong financial results, the primary driver is exceptional investment returns over the past several years, which likely won't be sustainable over the long term.

Alberta continued to lead all provincial economies in 2006 with real Gross Domestic Product (GDP) growth of 6.4%,[2] driving a 12-month employment growth rate of 6.0%.[3] During this same period, average weekly earnings in Alberta grew by 4.5%, also the highest rate across Canada. These economic indicators explain the growth in insurable earnings of 14.0% over 2005, boosting premium revenue up 2.5% to $1,003.3 million. Significant gains within the investment portfolio drove investment income up from $556.2 million for 2005 to $718.2 million for 2006. These key factors account for total revenues of $1,723.6 million, an increase of $186.7 million, or 12.1%, over 2005.

Total claim costs of $877.0 million increased $16.0 million or 1.9% over the previous year, due primarily to inflationary pressure on claim costs and related administration, and 3.4% growth in claim volume. Effective case management and ongoing focus on modified work continue to produce strong results. Administration and other expenses of $97.2 million brought total expenses to $974.2 million, or 2.4% higher than 2005.

[2] *Conference Board of Canada Forecast: Winter 2007* as cited in Alberta Finance *Current Economic Indicators by Province* for week ending March 2, 2007.
[3] Alberta Finance *Labour Force Developments* (December 2006).

OPERATING SURPLUS ANALYSIS

The table below analyzes the major contributors to the operating surplus of $749.4 million.

Significant Contributing Factors	2006 Budget	**2006 Actual**	2005 Actual
Premiums			
Surplus premium revenue resulting from the actual premium rate collected of $1.63 (2005 - $1.83) being higher than the required premium rate of $1.34 (2005 - $1.41) based on insurable earnings	$ -	**$ 176.3**	$ 225.0
Investments			
Net surplus of investment income over the interest requirement of $229.4 million (2005 - $223.4 million) on the claim benefit liability	238.5	**488.8**	332.8
Claim benefit liabilities			
Changes in actuarial methods and assumptions	-	**(8.2)**	(91.2)
Actuarial adjustments due to claims experience	40.7	**86.0**	121.0
Other			
Other revenue (expense) items	0.8	**6.5**	(2.0)
Operating surplus	$ 280.0	**$ 749.4**	$ 585.6

In simplest terms, the funding model for WCB operates on the premise that, in a given year, premiums cover all operating costs on a break-even basis, while investment returns are expected to cover the annual interest requirement of the liability. Operating surpluses or deficits arise when actual cost and returns are different from forecasted expectations that rely on economic and business assumptions based on available information at a point in time. Given the volatile performance of local and global economies, forecasting is subject to a great deal of uncertainty and risk. Consequently, even the most rigorously developed plans will likely differ significantly from actual results.

Customer Operations

PREMIUMS

Insurable earnings

↗ $5.8 billion (10.6%) over budget

Alberta's resource sector, the main engine of employment and wage growth, helped push the 2006 actual insurable earnings to $60.6 billion, compared to budget of $54.8 billion. Mining/Oil and Gas experienced the largest variance against budget at 20.0%, followed by Construction at 15.7%.

↗ $7.4 billion (13.9%) over prior year

Alberta's economic growth in 2006 was again the primary factor for the 13.9% increase, with payroll growth in the Construction and Mining/Oil and Gas sectors leading the way with 25.4% and 20.7% increases, respectively.

Premium revenue

↗ $142.4 million (16.5%) over budget

Total premium revenues were $1,003.3 million in 2006 compared to budget of $860.9 million. The increase stemmed primarily from higher increases in insurable earnings than planned, particularly in higher-rated industries. Construction led all sectors at $41.7 million, or 15.6% higher than budget, with Manufacturing and Mining/Oil and Gas following at $24.2 million (17.3%) and $24.0 million (35.8%), respectively.

↗ $24.4 million (2.5%) over prior year

Compared to 2005, the increase in premium revenues from $978.9 million to $1,003.3 million was due to wage and employment growth, primarily in the Construction Sector, with an increase of $31.3 million, or 11.3% over prior year, followed by Mining/Oil and Gas at $3.4 million, or 4.2%.

PREMIUM RATES

Total premium revenue requirements for rate-setting purposes are based on projected operating expenses for the following year. Base revenue requirements are comprised of fully funded costs of claims arising in the current year, administration costs related to those claims, general administration expenses for WCB operations, and transfer levies. In addition, premiums include a funding levy for the Occupational Disease Reserve, plus any special levies necessary to replenish the Accident Fund.

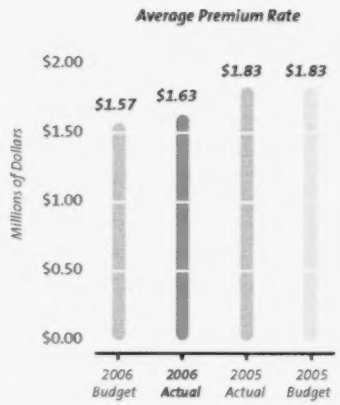
Average premium rate

↗ $0.06 (3.8%) over budget

Higher wage growth, primarily in higher-rated industries, resulted in an average actual rate that was $0.06 above budget. In contrast, the actual average rate in 2005 was the same as budget ($1.83) due to relatively consistent wage growth across all industries.

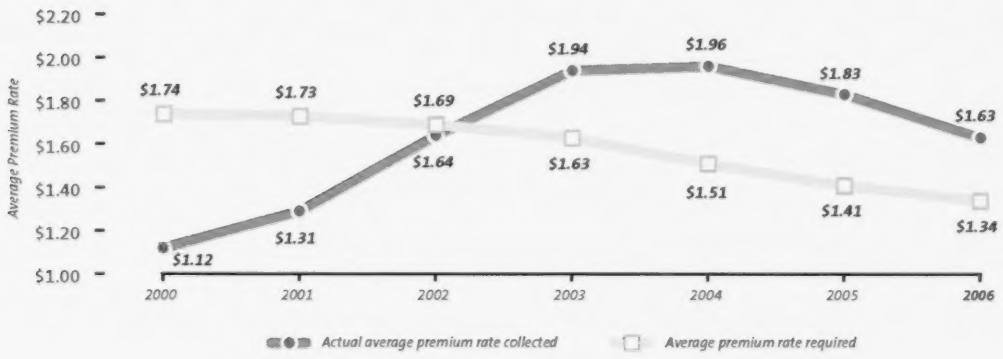
↘ $0.26 (14.2%) budget reduction from prior year

The reduction from $1.83 to $1.57 in the average budget rates reflects reductions in the requirements for operating costs ($0.03) and the $0.23 special levy in 2005 for funding replenishment.



The table below presents a seven-year trend comparison of required to collected premium rates. From 2000 to 2001, the shortfall in the required rate resulted from discounting of the rates to reflect investment returns. Premium rates are no longer discounted as the Funding Policy stipulates that the required rate and resulting revenue cover the total current-year fully funded claim costs.

***Average Premium Rate, 2000–2006,** Required vs. Collected*



The 2006 premium requirement and rate were based on projected fully funded claim costs and insurable earnings using the best information available in early Q4 2005. Better-than-expected cost performance, coupled with higher-than-estimated insurable earnings, culminated in higher premiums collected than required for fiscal 2006. This surplus premium accounts for 23.5% of the overall operating surplus.

CLAIM COSTS

Claim costs are an estimate of current and future costs arising from compensable injuries occurring in 2006, the future costs to administer these claims, and claim benefit liability adjustments relating to prior years' injuries.

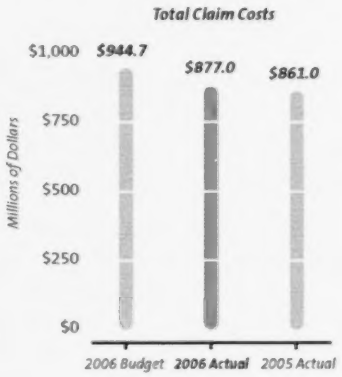
Total claim costs

↘ $67.7 million (7.2%) under budget

Sound management of current- and prior-year claims expenditures, coupled with favourable claim benefit liability adjustments, resulted in lower-than-expected claim costs.

↗ $16.0 million (1.9%) over prior year

Continued improvement in claim resolution and return-to-work outcomes almost completely offset the effects of rising claim volume and wage growth, resulting in claim costs being only slightly higher than the prior year.



Compensation benefit costs

Processed claim costs for the current year were $45.2 million below budget, due primarily to the lower volume and cost of Economic Loss Payment (ELP) cases during the year. Health care costs were slightly lower than expected due to successful return-to-work efforts, which reduced claim duration. The remaining $22.5 million of the favourable budget variance reflects the effects on the claim benefit liability of lower-than-expected processed claim costs and better-than-expected claim experience.

While Short-Term Disability costs increased only slightly against budget and the prior year, cost increases from 8% wage growth and a 3.8% increase in time-lost-claim volume were almost completely offset by the cost savings from improved claim duration outcomes.

Claim duration

Ongoing focus on injury prevention and modified work initiatives continue to produce positive outcomes in claims resolution through effective case management, medical management, innovative modified work programs and coordinated return-to-work planning. The focus on claim resolution and return to work resulted in another record achievement for claim duration (elapsed average time from accident to return to work) of 34.1 days, down from 36.3 days, or 6.1%, from 2005. The success from the reduction in duration efforts significantly offset the effects of higher claim volume and wage growth for 2006.

Claim volume

Time-lost claim (TLC) volume rose to 38,500, up 3.8% from the previous year. This growth reflects an expanding Alberta economy that added 108,500 jobs during 2006, a year-over-year gain of 6.0%,[4] translating into a record number of covered workers at 1.65 million, a 7.1% increase over 2005.

Injury prevention initiatives and growth in modified work cases (up 17.1% in 2006) continue to moderate rising TLC volume. In comparison to the 2006 TLC projected rate of 2.33 claims per 100 workers, which dropped slightly from the prior year, the disabling injury rate (TLC + modified work cases = disabling injuries) remained virtually unchanged, at 3.97 disabling injuries per 100 workers.

[4] Alberta Finance *Labour Force Developments* (December 2006)

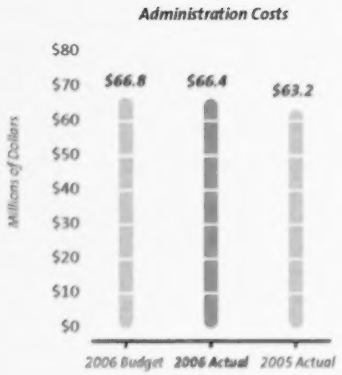
ADMINISTRATION

↘ $0.4 million (0.6%) under budget

Administration costs came in under budget, mainly due to effective expenditure management and lower-than-expected employee benefit costs.

↗ $3.2 million (5.1%) higher than prior year

The 5.1% increase over 2005 is due primarily to inflationary impacts on operating expenses.



Administration expenses exclude claim-related administration costs (2006 - $65.4 million, 2005 - $62.8 million) that are included in claim costs.

Financial Management

With a mandate to protect the financial integrity of the Accident Fund, WCB is pursuing innovative financial strategies that build on the work done in the 2005 Asset-Liability Study. The financial strategies that evolved from the recommendations of the study—Funding and Investment Policies—represent only the starting point for enhancements in financial management. The momentum gained from outstanding operating results and financial strength over the last three years allows WCB to take the long view in developing risk management strategies proactively. Over time, the knowledge and experience gained through the development and application of the existing financial policies can be leveraged towards further enhancements to financial management effectiveness.

FUNDING POLICY

The primary financial management strategy is the Funding Policy, which represents the framework within which financial decisions and plans are made. Fresh ideas and business needs provide new opportunities for financial strategy that must be researched and validated, leading to innovation in systems, tools and processes. In this light, the Funding Policy is not a static process, but evolves—through rigorous management review, stakeholder consultation and board approval—to address changing economic and financial circumstances and organizational priorities.

Funding Policy: principles and objectives

The strategic aim of funding and investment policies is to strive for balance between financial risk (i.e., volatility), investment returns and funding stability. Specifically, the Funding Policy embodies these financial objectives:

- Minimizing the risk of becoming unfunded.
- Minimizing cost volatility to employers.
- Minimizing the total cost charged to employers.

The funding strategies that evolved from these objectives address those risks that may affect the financial stability of WCB—primarily investment volatility. Innovative financial management strategies, such as the Funding Policy rules, are in place to minimize these risks, with ongoing monitoring and evaluation to ensure that they continue to respond effectively to changing economic conditions.

Funding Policy rules

Significant funding rules under the Funding Policy include the following:

- Premium-rate design based on current-year fully funded claim costs, i.e., full operating cost recovery with no rate subsidization or smoothing.
- Minimum premium cost to employers set at 60% of industry-rated premiums.
- Multiple target ranges to guide funding decisions and accommodate volatility at various funded levels.
- Surplus distribution dividend or fund replenishment levy used as funding adjustment mechanisms.

These rules help achieve equity and consistency in the attribution of costs between employers and, at the same time, ensure intergenerational equity by requiring current employers to cover the full cost of current year injuries.

Funding sources

On the balance sheet, the Accident Fund represents all the WCB assets available to discharge its legislative mandate. The allocation of assets to each of the WCB's fiduciary obligations is expressed as a percentage of total liabilities:

- Minimum assets required for payment of current and future compensation and related administration costs (target level 100%).
- Assets retained in Fund Balance to lessen the risk of becoming unfunded (target level 16%).
- Assets reserved in the Occupational Disease Reserve (ODR) to provide for significant unforeseen future costs related to latent occupational injury or disease (target level 6%).

The target funding range is between 116% and 122%. Surplus assets exceeding the 122% funding level are available for distribution to employers, whereas a deficiency of assets below 116% would require replenishment levies.

INVESTMENT POLICY

The Investment Policy contains the goals and objectives and the target asset mix for the portfolio. It also describes the permitted investments, constraints and controls for management of the portfolio. The underlying investment philosophy emphasizes minimizing volatility while maximizing returns. The desired outcome is to generate investment earnings that will exceed the actuarial required rate of return (currently 3.25%) with greater certainty over the long term.

Portfolio management

ASSET MIX

Asset mix is the primary driver of portfolio risk and return. The target asset allocations will continue to be implemented through the 2005—2007 Investment Management Strategic Plan, as follows: reducing equities from 55% to 44%, increasing bonds from 40% to 47% and real estate from 3% to 8%. The asset mix will generate a higher ratio of less-volatile fixed income and real estate returns. Throughout 2006, the asset mix was gradually moved towards the new policy targets. The majority of the shift from equities to bonds will be completed in 2007; however, the increased allocation to real estate will take several years to implement.

2006 ASSET MIX VS. POLICY MIX

Asset Class	Actual Mix	Current Target Mix	Current Over (Under) Weight	Future Target Mix	Current Over (Under) Weight
Cash and cash equivalents	0.8%	1.0%	(0.2%)	1.0%	(0.2%)
Conventional bonds	40.5%	39.0%	1.5%	39.0%	1.5%
Real return bonds	5.8%	8.0%	(2.2%)	8.0%	(2.2%)
Real estate	3.8%	3.5%	0.3%	8.0%	(4.2%)
Canadian equity	14.1%	14.5%	(0.4%)	10.0%	4.1%
Global equity	30.9%	30.0%	0.9%	30.0%	0.9%
Emerging-markets equity	4.1%	4.0%	0.1%	4.0%	0.1%
	100.0%	100.0%		100.0%	

USE OF DERIVATIVES

WCB's investment portfolio includes derivatives that are used to manage asset exposures. Derivative contracts are undertaken to provide market exposure, replicate permitted investments, or as part of a hedging strategy to reduce portfolio risk; they are utilized only within stringent guidelines and controls and are not intended to be used for speculative reasons. Derivative positions are monitored on a monthly basis and reported to senior management and the WCB's Finance Committee on a quarterly basis for compliance with the Investment Policy.

CURRENCY HEDGING

The investment portfolio includes a passive currency overlay to hedge the foreign currency exposure in the global equity asset class. Fifty percent (+/– 10%) of the foreign currency exposure assumed through the global equity asset class is hedged back to Canadian dollars.

Hedging transactions are executed through an external overlay manager. The currency overlay is independent of the underlying foreign-equity managers, and the performance impact is clearly separated and monitored. The hedge is executed through the purchase of currency forward contracts on the U.S. dollar, the Euro and the other major currencies reflected in the underlying foreign-equity mandates.

Further discussion of risk management strategies can be found in Note 6, Financial Risk Management, in the accompanying financial statements and notes.

INVESTMENTS

In 2006, investment returns were a key driver of WCB's exceptional financial results. The following discussion provides an overview of the economic and market forces that had a direct impact on WCB's investment portfolio and returns.

Capital markets overview

Capital markets enjoyed sustained growth as the world economy recorded a third consecutive year of strong GDP growth in 2006. Generally subdued core inflation and interest rates, coupled with a surge in global liquidity, boosted returns above expectations for 2006. The economies of China and India continue to exert upward pressure on global prices for materials and energy. While the U.S. economy slowed somewhat during the year due to weakness in construction and manufacturing, consumer spending and overall corporate profits remained strong. Global markets, on average, continued to exhibit solid returns for the year; however, emerging markets continued to lead the charge in delivering strong returns.

Domestic markets also performed well during 2006. The falling price of oil contributed to weak performance in the energy sector, but was offset by strong gains in both the financial and materials sectors.

The Canadian bond market exhibited moderate performance for all maturities. In contrast to the overall bond market, the Canadian real return bonds exhibited lacklustre performance with a modest negative return during 2006.

Portfolio performance

MARKET RETURNS

The portfolio earned a nominal market rate of return of 12.1% for 2006 (0.9% above the policy benchmark) and earned 12.2% for the four-year period ending December 31, 2006 (0.5% above the benchmark). This is well above long-term expectations of 7.1% per annum from the 2005 Asset-Liability Study. The primary goal of the investment portfolio is to earn a real rate of return that meets or exceeds the actuarial discount rate. On this basis, the real rate of return for 2006 of 7.4% (nominal rate of 12.1% less inflation of 4.7%) was well above the actuarially required discount rate of 3.25%.

BENCHMARK RETURNS

The benchmark return is comprised of benchmark index returns for each asset class, weighted by the policy asset mix. Performance vs. the benchmark is a relative measure of success in implementing the investment program through active management. In all asset classes, the portfolio outperformed the benchmarks due to successful active management strategies by fund managers.

Investment revenue

FIXED INCOME

Higher bond income compared to budget and prior year is attributable primarily to realized gains within the fixed income portfolios and the shift to a higher asset allocation during the year. Bond prices have moved consistently higher over the last several years, which provides for realized gains with normal portfolio trading.

EQUITIES

All major equity markets performed well during the year. The strong equity markets provided for significant realized gains from normal portfolio trading, transition to new managers and rebalancing towards the new asset-mix targets.

REAL ESTATE

The real estate portfolio, exclusively invested in Canadian real estate, continues to perform above expectations. Industry factors include rising rental rates as well as rising prices due to strong demand for quality assets, relative to the limited supply available in a tight market.

Investment revenue

↗ **$256.9 million (55.7%) over budget**

2006 performance reflects accrued gains released from Accumulated Other Comprehensive Income (AOCI) through portfolio management activities, as well as market strength in both fixed income and equity classes. $221.8 million of the budget variance relates to realized gains, while higher bond yields and dividend income were responsible for $35.1 million of the increase.

↗ **$162.0 million (29.1%) over prior year**

As with the budget, the increase over 2005 is due to accrued gains being realized through significant portfolio management activities.

The Annual Investment Report contains a detailed analysis of portfolio returns and can be viewed at *www.wcb.ab.ca*.

CLAIM BENEFIT LIABILITIES

At the end of each fiscal year, WCB determines its claim benefit liabilities for all injuries that have taken place up to that date. These liabilities represent the actuarial present value of all future benefit costs, excluding liabilities of self-insured employers. As at December 31, 2006, claim benefit liabilities aggregated to $4,396.9 million, an increase of $231.0 million, or 5.5%, over the previous year.

Overall change in the liability

The overall increase in the liability of $231.0 million is attributable to the following factors:

- $514.0 million for the provision for future costs of current year injuries.
- $229.4 million to cover the interest requirement on the liability.
- Benefit payments for prior years' injuries that decreased the liability by $434.6 million.
- Changes in actuarial methods and assumptions resulting in a net increase of $8.2 million.
- Claim cost experience gains resulting in a net decrease of $86.0 million in the liability.

Strong operating results in disability management provided a moderating influence against the recent trends of rising claim volume and inflation that impact future claim costs.

Changes in actuarial methods and assumptions

The overall real discount rate of 3.25% remains unchanged for 2006. The health care inflation rate was also maintained at 6.75%, reflecting continuing inflationary pressure on the health care system.

At the end of 2006, a provision of $23.6 million was established within the claims administration liability for the future costs of administering the Appeals Commission, on the basis that the appellate process is an integral aspect of claims administration. Other changes in assumptions and methods decreased the claim benefit liabilities by $15.4 million, resulting in a net increase to the liability of $8.2 million.

Impact of claims experience

Total actuarial gains in 2006 were $86.0 million from better-than-expected claim cost experience of $126.8 million compared to the prior valuation, offset by a loss of $40.8 million relating to the difference between actual and expected long-term cost of living adjustments and inflation.

Claims experience gains totalling $126.8 million, which decreased the liability, include the following significant factors:

- $50.2 million gain from lower ELP benefit costs offset by higher health care costs.
- $29.1 million gain due to lower utilization, mainly related to Temporary Total Disability (TTD).
- $13.6 million gain from differences in ELP incidence rates.
- $33.9 million gain from differences between actual and expected payments for prior years' injuries.

The $50.2 million gain arose primarily from actual wage growth experience that was better than expected for individuals receiving ELPs, meaning more workers returned to at least their pre-accident wage level, and payments for those continuing to receive ELPs were lower than expected. This trend resulted in experience gains of $75.0 million. Health care benefit payments for Personal Care Allowances were higher than expected, resulting in experience losses of $37.1 million, arising primarily from the pressures of an imbalance in the supply and demand for personal care attendants.

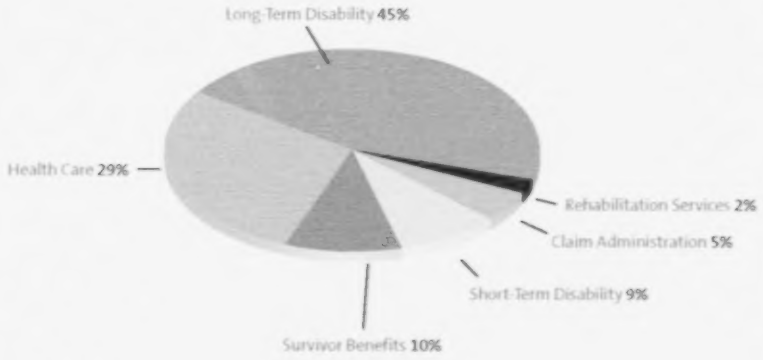
Successful claim resolution continues to have a positive effect on the liability for TTD benefits. The total number of TTD days paid was down by 4.4% in 2006 as compared to 2005, contributing to a gain of $19.1 million in utilization experience.

Sensitivity of actuarial assumptions

Claim benefit liabilities are estimated primarily using actuarial assumptions for the discount rate based on expected investment earnings, the claim incidence rate, cost escalation rate and benefits duration. Due to the large values involved, the liability estimates are highly sensitive to even small changes in these actuarial assumptions.

Details of the changes in claim benefit liabilities during 2006, as well as further discussion of the sensitivity of actuarial assumptions, can be found in Note 10, Claim Benefit Liabilities, in the accompanying financial statements and notes.

CLAIM BENEFIT LIABILITIES
December 31, 2006



Funded Position

As at December 31, 2006, the funded position (net assets, or the ratio of total assets to total liabilities) was 136.5%, compared to 132.4% at the end of 2005. Viewed from another perspective, WCB has total assets of $6.8 billion to cover its total estimated liabilities of $5.0 billion. This position is the result of sustained economic growth, successful case management initiatives and robust financial markets. WCB-Alberta is the only board in Canada that has paid, and is planning to pay, a special dividend to return excess funding to employers in 2006 and 2007, with estimated payouts of $431.6 million and $443.3 million, respectively.

WCB's funded position of $1,812.7 million includes $1,514.3 million in Fund Balance plus $298.4 million in the Occupational Disease Reserve (ODR).

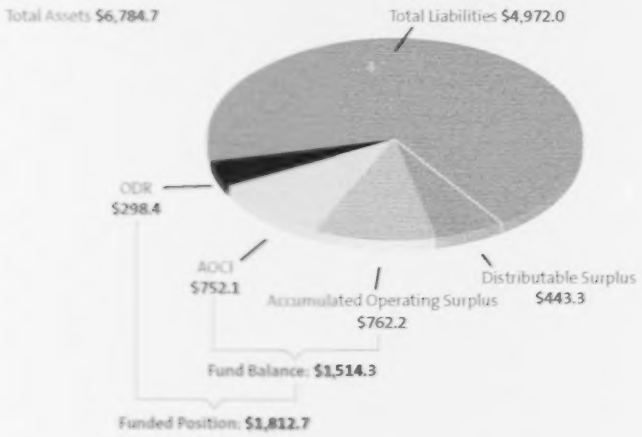
Fund Balance

The Fund Balance is comprised of $762.2 million in accumulated operating surplus and $752.1 million in accumulated other comprehensive income. The Fund Balance increased $271.0 million over 2005, primarily due to an operating surplus of $749.4 million, offset by a special dividend of $443.3 million declared for 2006, a transfer to the ODR of $15.4 million and a net decrease in unrealized investment gains of $21.0 million.

Reserves

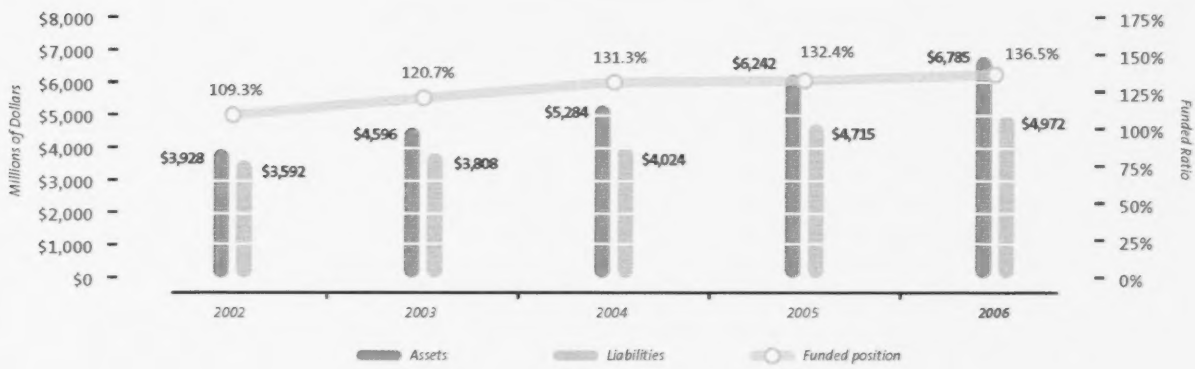
In addition to the Fund Balance, reserves represent the other significant component of the funded position. Reserves required for rate or benefit stabilization purposes are established and maintained through an appropriation from the Fund Balance. An example is the current reserve for occupational disease, which had a year-end balance of $298.4 million, based on 6% of total liabilities, to cover potential future liabilities related to latent disease claims.

ALLOCATION OF FUND ASSETS
December 31, 2006
(millions of dollars)



The chart below presents the funded position from 2002 through 2006. For comparability with current results, assets and liabilities for fiscal years 2002 and 2003 have been restated to reflect fair-value accounting. Without the special dividends in 2005 and 2006, the funded position would have been 145.8% and 159.3%, respectively.

Funded Position, 2002–2006



Risk Management

OVERSIGHT

Under the WCB corporate governance structure, the Board of Directors is responsible for overall risk management. The executive team, which has a mandate to identify and manage enterprise level risk, is assisted by the Risk Management Committee, a group comprised of senior managers with responsibility for risk identification, assessment and mitigation at the operating level.

RISK ASSESSMENT

WCB has three primary processes for managing risk in the corporation. First, risk management is embedded as an inherent function of day-to-day business. Projects or changes to business processes are required to go through a documented risk analysis to assess the risk to the corporation and to identify mitigation plans and controls to lessen/eliminate the likelihood or impact of these risks. The second process is to systematically complete a comprehensive risk assessment of emerging corporate risks as they develop throughout the year. Finally, WCB also completes an annual corporate risk assessment that engages departmental management teams and senior managers to develop a comprehensive organizational risk register. The executive team prioritizes those risks with the highest potential residual impact to the corporation and selects a number for comprehensive risk assessment.

SIGNIFICANT RISKS

WCB has identified the following risk exposures that could have significant impact on the organization and its operations.

Benefit cost risk

Many of WCB's current and future claims are subject to external factors that have potentially significant impacts on the amount and duration of related benefit costs. These risks and uncertainties are largely driven by economic conditions, such as escalation of health care costs and wage growth; however, other factors may arise through administrative precedents established through the appeals process, legislative changes or from new medical findings for occupational disease, among others. All these factors add significant uncertainty to WCB's cost structure and may impose, over time, significant new burdens on the funding model.

Funding risk

Managing the components of WCB's overall funded position (Fund Balance and ODR) is a complex process that involves excellent forecasting and operational performance, liability projection and investment management. Although these processes are within management's influence or control, many of the assumptions used in forecasting involve significant uncertainty regarding the future. Asset-liability management is a current priority to provide better systems, tools, processes and information to enhance forecasting, financial planning and decision-making processes within WCB.

Fraud-related risk

WCB annually collects approximately a billion dollars in premium revenue and distributes or reserves a similar amount for claim benefits and administrative costs. The magnitude of these costs and the number of individuals and companies involved in these processes—approximately 127,000 employers, 180,000 claimants and thousands of service providers—creates an inherent risk for fraud. The executive team assessed the organization's ability to protect against fraud issues, and additional controls have been implemented to strengthen WCB's management of fraud risk.

Technology risk

To support its core business processes, WCB utilizes a number of information systems for processing transactions and maintaining claimant and employer information. If these systems were to fail or were compromised, this could result in significant disruption to business processes and customer service. To mitigate technology risk, WCB maintains a business continuity plan, systems controls and backup systems to prevent processing failures, and provides extensive training to develop internal system expertise.

Significant Accounting Policies and Estimates

The adoption of accounting policies in accordance with Canadian Generally Accepted Accounting Principles (GAAP) requires that management make assumptions and estimates that could significantly affect the results of operations and the financial condition. The following discusses significant accounting policies and estimates that may have a material effect on current and future financial statements.

Premiums

On an annual basis, WCB's funding requirements are estimated for the next five years. In advance of the fiscal year, and based on the Funding Policy and projections in the Five-Year Plan, WCB determines the total premium amount necessary to cover estimated claim costs, transfer levies, administration expenses and funding requirements. As premium rates are set well in advance of revenue being realized, they reflect macroeconomic and business assumptions that will likely change prior to and during the fiscal period. Consequently, the premiums collected may be more or less than sufficient to cover estimated funding requirements, and the difference could be significant under dynamic business conditions.

Investments

Investment assets are financial instruments that have been designated as available-for-sale securities, whose primary purpose is to maintain capital and to generate investment income over the long term. As WCB accounts for investments at fair value, which reflects realizable market value, this accounting policy could lead to significant volatility in the balance sheet in turbulent capital markets. Any funding ratios based on asset values would therefore be volatile as well.

Derivatives

Certain derivative contracts, which are primarily interest-rate swaps and cross-currency interest-rate swaps, are designated as hedges of market risks for the purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the same period as the gains and losses of the securities being hedged on an accrual basis. Derivatives used for hedging purposes must meet stringent hedge-accounting requirements. When hedge accounting is not applied, all realized and unrealized gains and losses from derivatives are recognized in investment income in the respective periods in which they arose. Derivative contracts not designated as hedges for the purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures, forward foreign exchange contracts, credit default swaps and options, are recorded at fair value.

WCB is indirectly exposed to hedge accounting in its pooled investments but does not apply hedge accounting in its segregated investments, as hedge accounting is optional. Since the fair value of a derivative is based on an underlying security or reference index that is exposed to market changes, derivative positions could be volatile as well.

Asset capitalization and amortization

The acquisition or development costs of long-lived assets are amortized over their useful lives. The selection of applicable costs to capitalize and the estimate of asset-useful life both require the application of professional judgment within the context of corporate policy and industry practice. Furthermore, future periods will be affected by the choice of useful life and amortization pattern, which determine the timing and amount of expense recognized in each of those future periods.

Valuation of claim benefit liabilities

WCB has significant long-term obligations for compensation benefits to injured workers. These liabilities have maturities extending decades into the future, representing a continuing stream of cash outflows in each accounting period. WCB applies the Actuarial Present Value methodology for its claim benefit liabilities. The actuarial process projects each benefit cost stream for a number of years into the future and discounts them to present value using a discount rate linked to the return on investment assets funding those liabilities. Measurement uncertainty is high because estimates of the amount, timing and duration of the benefit commitments, and the expected future return on assets, are all difficult to predict accurately, and are influenced by external factors outside management's control. Consequently, the selection of one assumption over another in estimating claim benefit liabilities could have a material impact on the liability valuation.

Premium revenue

Premiums are billed when employers report their annual insurable payroll, based on the premium rate for their industry, the experience rating and the custom pricing structure, if applicable. Premiums are estimated for those employers who report late or do not report. Reported payrolls are periodically audited, and prior years' premiums may be adjusted based on audit findings. Consequently, premiums for the period may be affected by the current year estimate as well as adjustments related to prior periods. Finally, the Partners in Injury Reduction (PIR) rebate program also directly affects premium revenue for the current and following period, when the estimate is adjusted to the actual amount paid.

Investment revenue

The policy choice of available-for-sale investment accounting allows WCB to minimize investment income volatility by deferring recognition of unrealized holding gains and losses through AOCI. Such deferred gains and losses are recognized in income when realized (i.e., when securities are sold, written down or no longer qualify as financial instruments) through reclassification from AOCI to the statement of operations. Volatility of capital markets, timing of asset sales and portfolio turnover could have material impacts on the balance sheet, statement of operations and statement of comprehensive income.

Governance and Compliance

Legislative authority

Under the authority of the Workers' Compensation Act, the WCB is a provincial board-governed organization that operates independently while reporting to the Minister of Employment, Immigration and Industry (the minister).

Accountability Framework reporting

Through consultation with the minister and stakeholders, an Accountability Framework was approved in 2002 to provide Albertans with a set of performance measures that compare actual WCB results against established standards and/or industry benchmarks. These measures, which are tracked over a three-year period to illustrate trend information, cover such areas of WCB operations as communications with stakeholders, client satisfaction, consistency, clarity and fairness of claim decisions, timeliness and effectiveness of WCB services, financial capability and effectiveness of injury prevention programs. The Auditor General reviews the reported measures for completeness, reliability, comparability and clarity, but does not audit the results.

The *2006 Accountability Framework Report* can be accessed online at ***www.wcb.ab.ca***.

Internal controls over financial reporting

In 2005, WCB launched a voluntary initiative to establish a governance structure and ancillary processes related to internal controls over financial reporting (ICOFR). WCB has developed a framework and plan for the overall ICOFR program, which is anticipated to require several years to complete. The framework is based on best practices under the COSO[5] and COBIT[6] frameworks. The ICOFR program will proceed with key involvement by WCB's Management Audit group and will coordinate with the Office of the Auditor General with respect to integration with its annual financial audit.

Business planning

An important aspect of the financial planning and budgeting process is its linkage to the WCB's strategic plan and the resulting corporate objectives that are developed each year in support of the strategic plan. These objectives and the related performance indicators set the direction for the organization and identify the significant areas of focus for the coming year. The 2007–2011 financial plan, which includes the 2007 budget, establishes the foundation for appropriate resource allocation towards attaining these corporate objectives.

The 2007 preliminary Corporate Objectives and Performance indicators were approved by the Board of Directors in September 2006. The 2007–2011 Five-Year Plan and 2007 Operating Budget, which were developed in accordance with the approved objectives and performance targets, were reviewed and approved by the Board of Directors in October 2006.

WCB's 2007 Budget and 2007–2011 Financial Plan can be reviewed at ***www.wcb.ab.ca***.

[5] Committee of Sponsoring Organizations of the Treadway Commission, which developed a widely accepted governance framework for internal control.
[6] Control Objectives for Information and related Technology, a collection of best practices for IT governance, control and assurance.

Emerging Issues

International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board (AcSB) ratified the 2006–2011 strategic plan entitled *Accounting Standards in Canada: Future Directions*, which committed Canadian reporting entities to follow international accounting rules. The plan proposes to eliminate Canadian GAAP and replace it with International Financial Reporting Standards (IFRS) for Canada's publicly traded companies over a five-year transitional period.

WCB has been monitoring these developments to ensure that accounting standard changes affecting WCB's financial results are addressed proactively. During 2006, WCB began planning for the changeover by conducting preliminary research on the accounting requirements of IFRS. A high-level evaluation and convergence strategy will be completed in 2007, followed by a more detailed implementation plan in 2008.

Future accounting policy changes

ACCOUNTING CHANGES

In July 2006, the AcSB issued the amended Section 1506 *Accounting Changes*, effective for fiscal periods beginning on or after January 1, 2007, with earlier adoption encouraged. The amendments permit voluntary changes in accounting policy only if they result in financial statements providing reliable and more relevant information, require accounting changes to be applied retrospectively unless impracticable to do so, prescribe retrospective correction of prior period errors and require additional disclosures in respect of accounting changes. Section 1506 is not expected to have any impact on future results of operations or financial condition.

CAPITAL DISCLOSURES

In December 2006, the AcSB issued a new accounting standard Section 1535 *Capital Disclosures*, effective for fiscal periods beginning on or after October 1, 2007, with earlier adoption encouraged. This standard requires an entity to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. Section 1535 is not expected to have any impact on future results of operations or financial condition.

FINANCIAL INSTRUMENTS

In December 2006, the AcSB issued the amended Section 3862 *Financial Instruments—Disclosure* and Section 3863 *Financial Instruments – Presentation* to replace Section 3861 *Financial Instruments—Presentation and Disclosure*. Both sections are effective for fiscal periods beginning on or after October 1, 2007. In addition to providing enhanced disclosure of risks associated with financial instruments, Section 3862 requires the entity to explain how those risks are managed. Section 3863 remains largely unchanged from the previous standard. As these amendments affect only presentation and disclosure of financial instruments, they will not have any impact on future results of operations or financial condition.

Looking Ahead

For 2006, WCB delivered another strong financial performance, highlighted by solid premium growth, an increase in investment returns, continuing improvement in service delivery and successful claims resolution and return-to-work initiatives. WCB expects to carry this momentum into 2007, although the risks and uncertainties of a strong economy, coupled with volatile capital markets, will present significant challenges for accurate forecasting and planning in all facets of the business. The following discussion considers those economic factors that could have a major impact on future WCB financial results.

Economic outlook

For 2007, all major global economies should experience some moderation of their recent GDP growth, led by the slowdown in the U.S. economy. Canada will likely see 2.9% growth, a modest increase from the 2.8% growth in 2006, while Alberta can expect real GDP growth of 5.0%, down from 7.0% in 2006[7]; however, the key economic indicators that have significant implications for WCB are employment and wage growth.

The Conference Board of Canada's forecasted slowdown for the Alberta economy in 2007 is not expected to have an effect on WCB's outlook for planning purposes. Over the past few years, the Conference Board predictions of Alberta's economic growth have differed markedly from the WCB's experience and forecasts as the population of workers covered by WCB have experienced higher wage growth than the overall provincial average. Consequently, the planning approach for 2007 considered the Conference Board's wage growth projection for 2007 as a starting point and adjusted it in light of recent WCB experience. Using the Conference Board growth rate of 5.0% for 2007 would generate an 8.8% increase in insurable earnings for 2007; however, WCB's experience and analysis of the Alberta economy supports a more aggressive growth rate of 9.9% for 2007 insurable earnings.

Furthermore, the wage and employment growth rates used to project insurable earnings are higher than those in most of the widely used economic forecasts, as the forecasters' data tend to lag. For 2007, WCB is forecasting claimant wage growth of 8.0% compared to the Conference Board's projected Alberta rate of 5.25%; however, WCB employment growth of 4.4% is lower than the Alberta forecast of 6.5% due to exempt industries being excluded.

Investment outlook

The market performance of the past three years cannot be sustained over the long term. From 2003 to 2006, the investment portfolio earned rates of return greater than 10% annually. With current bond yields barely over 4%, low inflation and dividend yields in the 2% to 3% range, there is no reasonable basis for expecting continued double-digit returns. In the near term, volatile, single-digit rates of return are more likely. For 2007 and beyond, the total portfolio return has been set at 6.0% for planning purposes.

The uncertainty of market returns, as always, presents difficult challenges for maintaining financial stability. The investment strategy, which has a balanced focus on minimizing volatility while maximizing returns, calls for new mandates that should help achieve this goal.

[7] *Conference Board of Canada Forecast: Winter 2007* as cited in Alberta Finance *Current Economic Indicators by Province* for week ending March 2, 2007.

Business outlook

CUSTOMER OPERATIONS

On the customer operations front, WCB will continue to look for opportunities to improve outcomes. Being able to maintain current service levels and improving on an already-high level of quality will be a challenging task in the face of rising claim volume, escalating costs and a tight market for qualified staff. The proven effectiveness of WCB's service delivery model is a solid platform for continuing success, which relies on the dedication and professionalism of its staff to deliver services compassionately and in a timely and effective fashion.

WCB continues to be successful in injury management, having reached the lowest time-lost claim rate per 100 covered workers in its history; however, it is likely that this trend may be levelling off. Management remains cautiously optimistic that some improvement is still attainable. Accordingly, modified work will continue to be promoted, while ensuring that it provides meaningful work that leads to sensible outcomes for employers and workers. For 2007, modified work claims are expected to rise by 10.0%. Time-lost-claim volume is expected to grow by 5.0% to 41,300, with the number of covered workers increasing to 1.78 million—a 4.7% increase—and claim duration is projected to remain stable at approximately 34.8 days.

FINANCIAL MANAGEMENT

WCB will continue to execute effective financial management strategies by enhancing the existing Asset-Liability Management framework. This framework represents a holistic approach to financial analysis, planning and decision making.

2007 PREMIUM RATE

For 2007, the expected average industry premium rate was reduced by 8.9% to $1.43 per $100 of insurable earnings, compared to $1.57 in 2006. This decline in the average premium rate is attributable to stable accident frequency and claim costs, while insurable earnings are forecasted to grow by 9.9%. As well, effective safety initiatives are anticipated to limit the growth in claims to less than the growth in insurable earnings.

With all WCBs announcing their rates for 2007, WCB-Alberta continues to have the lowest average premium rate in Canada. Alberta's premium rates have been consistently among the lowest in Canada over the past five years.

UNCERTAINTIES AND CHALLENGES FOR 2007 AND BEYOND

WCB management is fully cognizant that current financial results are not indefinitely sustainable and that it is prudent to plan for an eventual downturn. As part of the strategic planning process, the following risk scenarios have been identified and incorporated, where appropriate, in current financial plans:

- Mounting claim volume related to escalating employment growth will stress the current service level, driving the need to recruit scarce qualified staff to support the rising demand for services.
- Although energy prices are expected to remain high, growth in the sector may be constrained by increasing financing costs, the shortage of qualified workers and infrastructure limitations. Accordingly, new capital investment and/or business expansion may slow down or be deferred, resulting in a lower rate of growth.
- Premium growth due to employment and wage growth may be more than offset by inflationary pressure on future claim costs, and related liabilities may rise significantly due to greater claim volume, health care inflation, etc.
- With the shortages of experienced and skilled workers in the current labour force, employers are recruiting less-experienced workers, thus running the risk of increased injury frequency.

Management will be closely monitoring economic, business and operating trends inherent in these scenarios to develop a proactive and meaningful response to emerging adverse conditions as organizational needs arise.

Outlook for financial condition

At the end of 2006, WCB's finances are solid, with a funded position of 136.5% of assets to liabilities, even after a special dividend of $443.3 million payable in 2007. The Accident Fund is expected to remain fully funded, with a funded position for 2007 of 124.6% after a $286 million special dividend. Ongoing commitment to operational excellence will help ensure manageable cost escalation and rate stability for the near future.

Given rising claim volume, plateauing of claim duration outcomes and uncertainty of future investment returns, however, it is unlikely that future financial performance or special dividends will remain at current levels. Once the surplus-distribution process has achieved its objective of bringing the funded position into the target funding range, the frequency and amount of future dividends are expected to be relatively lower or even unnecessary.

Future direction

WCB will continue to respond to stakeholder needs and concerns with customer-focused initiatives that make it easier for clients to deal with workplace injuries.

Beyond the foreseeable horizon, the key to the sustainability of financial results and the stability of WCB's already-solid fundamentals is to maintain a constant focus on what WCB does best—reducing the impact of workplace illness and injuries on Albertans by helping injured workers return to work as quickly and safely as possible.

WCB-Alberta 2006 Financial Statements

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Responsibility for Financial Reporting

The financial statements of the Workers' Compensation Board were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting principles consistent with generally accepted accounting principles in Canada.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains the necessary internal controls designed to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

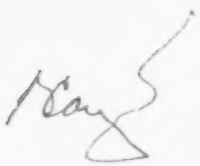
The WCB's actuarial staff performs an annual actuarial valuation of the claim benefit liabilities included in the financial statements of the WCB.

The Board of Directors is responsible for overseeing management in the performance of financial reporting responsibilities and has approved the financial statements included in the Annual Report.

The Board of Directors is assisted in its responsibilities by its Audit Committee. This committee reviews and recommends approval of the financial statements and meets periodically with management, external auditors and actuaries concerning internal controls and all other matters relating to financial reporting.

Eckler Ltd. has been appointed as the independent peer-review actuary to the WCB. Its role is to complete an independent review of the annual actuarial valuation of the claim benefit liabilities included in the financial statements of the WCB and to report thereon in accordance with generally accepted actuarial practices.

The Office of the Auditor General, the independent auditor of the WCB, has performed an independent audit of the financial statements of the WCB in accordance with Canadian generally accepted auditing standards. The Auditor's Report outlines the scope of this independent audit and the opinion expressed.



David B. Carpenter, F.C.A.
Chair, Board of Directors

Guy R. Kerr
President and
Chief Executive Officer

Ron J. Helmhold, C.A.
Chief Financial Officer

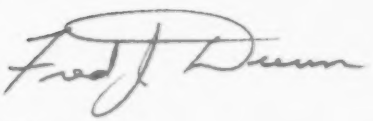
Auditor's Report

To the Board of Directors of the Workers' Compensation Board - Alberta

I have audited the balance sheet of the Workers' Compensation Board - Alberta as at December 31, 2006 and the statements of operations, comprehensive income, changes in funded position and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at December 31, 2006 and the results of its operations, results of its comprehensive income, movements in funded position and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



F.C.A.
Auditor General
Edmonton, Alberta

March 21, 2007

WCB-Alberta Actuary's Report

To the Board of Directors of the Workers' Compensation Board - Alberta

I have completed an actuarial valuation of the benefit liabilities under the Workers' Compensation Act of Alberta as at December 31, 2006, for the financial statements of the Workers' Compensation Board.

My estimate of the benefit liabilities of $4,396.9 million represents the actuarial present value at December 31, 2006, of all expected short-term disability benefits, long-term disability benefits, survivor benefits, health care payments, rehabilitation payments and claims administration expenses related to claims that occurred on or before December 31, 2006. This estimate is based on the legislation, policies and administrative practices in effect at December 31, 2006. The benefit liabilities do not include a provision for future claims arising from latent occupational disease or for benefits and payments that are on a self-insured basis.

The following are the main assumptions used in this valuation. These are the same assumptions that were used in the 2005 valuation. Changes in other assumptions are noted in the report "Actuarial Valuation of the Liabilities of the Accident Fund as of December 31, 2006."

The economic assumptions underlying the calculations made in this report are a 3.25% per annum real rate of return on invested assets and an annual change in Consumer Price Index of 2.50%. Benefits that are increased in accordance with the Cost of Living Adjustment policy are assumed to increase at a rate of 2.00% and are therefore valued using a net discount rate of 3.75% per annum. Health Care and Rehabilitation benefits are assumed to grow at annual rates of 6.75% and 3.50%, respectively, and are valued using net discount rates of −0.86% and 2.25%, respectively.

Pharmaceutical costs are assumed to grow at a rate of 9.75% per annum over a select period of five years following the valuation date. This category reverts to the long-term Health Care growth rate of 6.75% following the select period.

Self Managed Personal Care Allowances are assumed to grow at a rate of 2.00% per annum over a select period of three years following the valuation date. Payments are adjusted to be consistent with current market values every 7 years starting in 2010. The adjustment is determined as $(1.0675/1.02)^7$. $((1+\text{Health Care Inflation})/(1+\text{COLA}))^7$.

Liabilities in respect of permanent disability and survivor benefits are based on factors developed from historical patterns of awards and mortality rates. Liabilities in respect of Economic Loss Payments are based on a combination of the Alberta Workers' Compensation Board's own experience and the experience of another Canadian Workers' Compensation Board that has been providing similar benefits for a longer period of time.

Liabilities in respect of all other benefits are based on a continuation of recent payment patterns by year since accident.

I have reviewed the valuation data for reasonableness and consistency with data used in prior years and with data used in the financial statements.

In my opinion the data is sufficient and reliable, the actuarial assumptions are appropriate for the purpose of the valuation, and the methods employed are consistent with accepted actuarial practice. This valuation report has been prepared and my opinion has been given in accordance with accepted actuarial practice.

Michael Williams

Michael Williams, F.S.A., F.C.I.A.
Chief Actuary
Workers' Compensation Board - Alberta

March 13, 2007

Consulting Actuary's Report on the Valuation of the Benefit Liabilities of the Workers' Compensation Board - Alberta as at December 31, 2006

Eckler Ltd.
Consultants and Actuaries

I have reviewed the actuarial valuation of the benefit liabilities of the Workers' Compensation Board - Alberta (WCB) as at December 31, 2006 with respect to future payments for short-term disability, long-term disability, survivor benefits, health care, rehabilitation and claim administration costs on account of claims that occurred on or before that date.

The WCB's Actuarial Services Department is responsible for this valuation and the Chief Actuary has provided his opinion that the data is sufficient and reliable for the purpose of the valuation, the actuarial assumptions are appropriate for the purpose of the valuation and the methods employed are consistent with accepted actuarial practice, and that his valuation report has been prepared and his opinion has been given in accordance with accepted actuarial practice.

The valuation was based on the provisions of the Workers' Compensation Act of Alberta and on the WCB's policies and administrative practices in effect as of December 31, 2006. I have examined the appropriateness of the data and the procedures used to verify its integrity, the assumptions and methods selected for the valuation, as well as their application for the calculation of the benefit liabilities.

For this valuation, some changes were made to the assumptions employed to value the liabilities for long-term disability and survivor benefits when compared with those used in the previous valuation.

The estimate of the benefit liabilities of $4,396.9 million represents the actuarial present value of future payments with respect to claims occurred on or before December 31, 2006. In my opinion, that amount makes reasonable provision for future payments for short-term disability, long-term disability, survivor benefits, health care, rehabilitation and claim administration costs on account of claims that occurred on or before that date; it does not include a provision for future claims arising from latent occupational disease or for benefits and payments that are on a self-insured basis.

In my opinion, the data on which the valuation is based is sufficient and reliable, the assumptions, in aggregate, are appropriate for the purposes of the valuation, and the methods employed are also appropriate. This report has been prepared and my opinion given in accordance with accepted actuarial practice.

Richard Larouche

Richard Larouche, F.S.A., F.C.I.A.
Actuary
Eckler Ltd.

March 13, 2007

The Workers' Compensation Board - Alberta

Balance Sheet

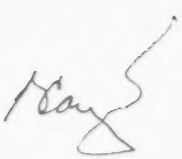
As at December 31

(thousands of dollars)

	Notes	2006	2005
ASSETS			
Cash and cash equivalents		**$ 61,898**	$ 51,788
Receivables	4	**119,065**	109,832
Investments	5, 6	**6,551,728**	6,028,112
Property, plant and equipment	7	**52,029**	51,770
		$ 6,784,720	$ 6,241,502
LIABILITIES			
Payables and accruals	8	**$ 131,805**	$ 116,327
Dividends payable	9	**443,344**	433,033
Claim benefit liabilities	10	**4,396,900**	4,165,900
		4,972,049	4,715,260
FUNDED POSITION			
Fund Balance		**1,514,271**	1,243,242
Occupational Disease Reserve		**298,400**	283,000
		1,812,671	1,526,242
		$ 6,784,720	$ 6,241,502
COMMITMENTS	21		
CONTINGENCIES AND INDEMNIFICATION	22		

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:



David B. Carpenter, F.C.A.
Chair, Board of Directors

Guy R. Kerr
President & Chief Executive Officer

The Workers' Compensation Board - Alberta

Statement of Operations

Year Ended December 31

(thousands of dollars)

	Notes	2006 Budget	2006 Actual	2005 Actual
REVENUE				
Premium	12	**$ 860,854**	**$ 1,003,292**	$ 978,910
Investment	13	**461,325**	**718,173**	556,214
Other	14	**390**	**2,133**	1,763
		1,322,569	**1,723,598**	1,536,887
EXPENSES				
Claim costs	10	**944,685**	**877,012**	860,972
Administration	15	**66,800**	**66,427**	63,200
Injury reduction	18	**21,634**	**22,226**	18,916
Appeals Commission	19	**9,456**	**8,526**	8,174
		1,042,575	**974,191**	951,262
OPERATING SURPLUS		**$ 279,994**	**$ 749,407**	$ 585,625

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board - Alberta

Statement of Comprehensive Income

Year Ended December 31

(thousands of dollars)

	2006	2005
OPERATING SURPLUS	**$ 749,407**	$ 585,625
OTHER COMPREHENSIVE INCOME		
Net unrealized gains on available-for-sale investments arising during the year	**501,130**	412,024
Net investment (gains) realized during the year and reported in the statement of operations	**(524,911)**	(301,571)
Loss realized during the year from write-down of impaired investments and reported in the statement of operations	**2,740**	2,828
	(21,041)	113,281
TOTAL COMPREHENSIVE INCOME	**$ 728,366**	$ 698,906

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board - Alberta

Statement of Changes in Funded Position

Year Ended December 31

(thousands of dollars)

	Notes	2006	2005
FUND BALANCE			
Accumulated operating surplus			
Balance, beginning of year		**$ 470,070**	$ 358,978
Operating surplus		**749,407**	585,625
Dividends	9	**(441,937)**	(433,033)
Transfer to reserve		**(15,400)**	(41,500)
		762,140	470,070
Accumulated other comprehensive income			
Balance, beginning of year		**773,172**	659,891
Other comprehensive income		**(21,041)**	113,281
	5	**752,131**	773,172
Fund Balance, end of year		**1,514,271**	1,243,242
OCCUPATIONAL DISEASE RESERVE			
Balance, beginning of year		**283,000**	241,500
Transfer from accumulated operating surplus		**15,400**	41,500
		298,400	283,000
		$ 1,812,671	$ 1,526,242

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board - Alberta

Statement of Cash Flows

Year Ended December 31

(thousands of dollars)

	2006 Budget	2006 Actual	2005 Actual
OPERATING ACTIVITIES			
Cash inflows			
Employer premiums	$ 892,753	$ 991,825	$ 979,138
Dividend, interest and derivative income	207,596	206,653	258,890
Realized net investment gains	253,729	524,911	301,571
Other	268	1,323	1,530
Cash outflows			
Benefits to claimants and/or third parties on their behalf	(675,700)	(556,067)	(529,671)
Employee and supplier payments for administrative and other goods and services	(153,665)	(136,794)	(147,966)
Injury reduction program funding	(21,634)	(22,167)	(19,137)
Net cash from operating activities	503,347	1,009,684	844,355
INVESTING ACTIVITIES			
Cash outflows			
Purchase of investments—net of sales	(84,427)	(558,048)	(841,493)
Purchase of capital assets—net of disposals	(9,800)	(9,900)	(6,951)
Net cash used for investing activities	(94,227)	(567,948)	(848,444)
FUNDING POLICY ACTIVITIES			
Cash outflows			
Special dividends to employers	(409,120)	(431,626)	-
Net cash used for Funding Policy activities	(409,120)	(431,626)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	10,110	(4,089)
Cash and cash equivalents, beginning of year	59,000	51,788	55,877
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 59,000	$ 61,898	$ 51,788

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

(thousands of dollars unless stated otherwise)

1. LEGISLATIVE AUTHORITY

The Workers' Compensation Board - Alberta (WCB) operates under the authority of the Workers' Compensation Act (the Act), Revised Statutes of Alberta 2000, Chapter W-15, as amended.

2. FUNDING POLICY

In accordance with Section 91 of the Act, the Board of Directors established a Funding Policy to ensure that WCB remains financially stable and secure into the future for the benefit of its stakeholders. The Act stipulates the creation of an Accident Fund (the Fund) for the payment of present and future compensation. The Fund is fully funded when the total fund assets equal or exceed total liabilities. This funded position (or net assets) represents the current funding status of the Fund. The Funding Policy establishes a target zone for funding sufficiency, below which fund replenishment may be initiated and above which special dividends may be paid, both subject to approval by the Board of Directors through the annual financial plan.

To ensure sufficiency of funds, WCB maintains two reserves within the Accident Fund: the Fund Balance and the Occupational Disease Reserve (ODR).

The Fund Balance covers those costs, not provided for elsewhere, arising from events that might otherwise unfairly burden employers in the short term, or that might otherwise prevent full funding of the Accident Fund. It consists of accumulated net operating surpluses and accumulated other comprehensive income (AOCI), which holds unrealized gains and losses arising from fair-value accounting for investments. It is replenished through accumulated net operating surpluses, accumulated unrealized gains/losses generated by the investment portfolio and, where required, through special funding requirements included in premiums. Conversely, funding beyond the target range, as specified in the Funding Policy, is paid out of the Fund Balance as special dividends.

The ODR was established through an appropriation from the Fund Balance to provide for costs arising from latent occupational injury or disease where a causal link to the workplace has not been established, but may be established in the future. No provision against income has been made for future claims arising from such injury or disease because the determination of such claims cannot be reasonably estimated. The ODR is maintained at 6% of total liabilities in each year through a transfer from or to the Fund Balance.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements of WCB have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Accounting estimates and measurement uncertainty

The preparation of financial statements in conformity with GAAP requires the use of estimates as at the date of the financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods presented. Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimates, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action.

Claim benefit liabilities, the reserve for occupational disease, Partners in Injury Reduction accrual, accrued premiums and accrued dividends payable are the most significant items based on estimates. Actual results could differ from the estimates made by management in these financial statements, and these differences, which may be significant, could require adjustment in subsequent reporting periods.

Comprehensive income

Comprehensive income includes current operating surplus and other comprehensive income (OCI).

OCI is comprised of unrealized fair-value gains and losses from investments less previously deferred unrealized gains and losses that have been realized during the period through sale or provided for as a write-down and recognized in current income.

Accumulated other comprehensive income (AOCI) includes unrealized fair-value gains and losses arising from holding investments. When the underlying securities are subsequently sold or written down, the resulting realized gain or loss is released from AOCI into investment income in the statement of operations.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rate. Foreign currency transactions are translated into Canadian dollars using the exchange rate in effect when those transactions occur. Foreign-currency gains and losses are recognized in income in the period in which they arise.

Cash and cash equivalents

Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and short-term investments held by custodians for investment purposes are excluded from cash and cash equivalents reported on the balance sheet.

Investments

Portfolio investments, which comprise securities held for long-term capital appreciation and generation of income, are reported at fair value. Fixed income, marketable equity securities and real estate investments are classified as available-for-sale investments. They are initially recognized at acquisition cost (net of any premium or discount at date of purchase, if applicable) and subsequently remeasured at fair value at each reporting date. WCB utilizes trade-date accounting (date when transactions are entered into rather than when they are settled) for all purchases and sales of financial assets in its investment portfolio.

Valuations of publicly traded securities are based on their closing market prices or the average of the latest bid-and-ask prices quoted by independent securities valuation companies. Non-publicly-traded securities such as units of private-investment pooled funds are valued at the net asset values of the funds, which reflect the fair values of fund assets less fund liabilities. The fair value of the real estate fund is based on independent annual appraisals, net of any liabilities against the real properties. Investments also include derivatives that are financial contracts whose price is dependent on the price of one or more underlying securities, reference rates or indices.

The fair value of the WCB's derivative contracts, primarily within pooled funds, is determined by the following methods:

a) Interest rate swaps and cross-currency swaps are valued based on discounted cash flows using current market yields and exchange rates.

b) Forward foreign exchange contracts (including those in currency overlays) and equity index futures contracts are valued based on quoted market prices.

c) Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating-rate interest.

d) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

e) Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters that measure changes in the underlying swaps.

Investment income

WCB recognizes interest revenue as earned, dividends when declared, and investment gains and losses when realized. Interest revenue includes amortization of any premium or discount recognized at date of purchase. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Unrealized gains and losses on available-for-sale securities are recorded in OCI and recognized in income when realized.

Transaction costs are included in the acquisition cost of individual securities and recognized as part of the realized gains or losses when they are sold or written down. Direct investment expenses such as external custodial and management fees, as well as internal investment management expenses, are netted against investment income.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and current fair value is recorded against investment income in the statement of operations.

Included in investment income is income from derivatives. WCB's investment portfolio contains certain derivatives that meet hedge accounting requirements. Hedge accounting for these investments is optional, but the ability to apply it is contingent on satisfying rigorous technical requirements with respect to designation, documentation and effectiveness. WCB does not apply hedge accounting to the hedging relationships in its segregated investments, but uses hedge accounting indirectly in certain pooled investments.

Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for the purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the same period as the gains and losses of the securities being hedged on an accrual basis. When a hedge relationship is designated for the purposes of hedge accounting, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, the type of derivative used, and the matching of critical terms of the hedged asset and the hedging instrument to measure effectiveness.

When hedge accounting is not applied, all realized and unrealized gains and losses are recognized in investment income in the respective periods in which they arose. Derivative contracts not designated as hedges for the purposes of hedge accounting—primarily bond index swaps, equity index swaps, equity index futures, forward foreign-exchange contracts, credit default swaps and options—are recorded at fair value.

Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized over their estimated useful lives. Amortization is calculated using the following annual rates and methods:

Buildings		*2.5% straight-line*
Equipment	*- computer*	*35% declining balance*
	- furniture and other	*15% declining balance*
	- vehicles	*20% straight-line*
Computer software		*20% straight-line*

WCB evaluates its property, plant and equipment for impairment due to obsolescence, redundancy, deterioration and/or loss. WCB writes down the carrying value to fair value and records the write-down amount as amortization expense.

Claim benefit liabilities

Claim benefit liabilities represent the actuarial present value, as estimated by the WCB's actuary, of all future benefit payments and claim administration costs that have occurred in respect of current and prior years' injuries. Claim benefit liabilities have been estimated in accordance with generally accepted actuarial practice established by the Canadian Institute of Actuaries.

Premium revenue

Premiums are billed when employers report their insurable earnings for the current premium year. For employers who have not reported, premiums are estimated, and any difference between actual and estimated premiums is adjusted in the following year. Premium revenue is net of the Partners in Injury Reduction rebate.

4. RECEIVABLES

($ thousands)	2006	2005
Premium	$ 112,125	$ 103,111
Other	6,940	6,721
	$ 119,065	$ 109,832

Premium receivables of $112,125 (2005 – $103,111) include an estimate of $58,885 (2005 – $59,262) for premium revenue related to employers that had not reported their insurable earnings by year-end. Historically, year-end premium revenue accruals have ranged from 4% to 6% of total processed premiums.

5. INVESTMENTS

The table below presents the fair value of WCB's investments as at December 31, 2006 together with the change in fair value from their cost base.

($ thousands)	2006				2005			
	Fair Value	Cost[1]	Acc Other Comp Income	Portfolio Return[2]	Fair Value	Cost[1]	Acc Other Comp Income	Portfolio Return[2]
Fixed income								
Conventional bonds	$ 2,676,680	$2,639,066	$ 37,614	4.8%	$2,176,219	$2,122,391	$ 53,828	7.0%
Real return bonds	384,638	307,571	77,067	-2.8%	389,772	283,220	106,552	15.2%
	3,061,318	2,946,637	114,681		2,565,991	2,405,611	160,380	
Real estate fund	254,055	163,337	90,718	21.4%	209,793	141,968	67,825	29.9%
Equities								
Domestic:								
Canada	921,015	797,080	123,935	18.3%	1,108,582	887,044	221,538	23.4%
Foreign:								
Global	2,100,329	1,677,532	422,797	18.2%	1,855,581	1,611,213	244,368	8.5%
Emerging markets	215,011	215,011	-	34.6%	288,165	209,104	79,061	37.3%
	3,236,355	2,689,623	546,732		3,252,328	2,707,361	544,967	
	$6,551,728	$5,799,597	$ 752,131	12.1%	$ 6,028,112	$5,254,940	$ 773,172	13.0%

[1] Cost includes:
a) the fair value of derivative contracts not designated as hedges for the purpose of hedge accounting
b) the accumulated amortization of discount or premium on fixed-income securities
c) the written-down value for securities assessed to have an other-than-temporary decline in value

[2] Portfolio return represents portfolio appreciation/depreciation, interest, dividend and derivative income since the beginning of the year, expressed in percentage terms, but does not include purchases and sales.

Note 13, Investment Revenue, provides a breakdown of the sources of investment revenue by asset class.

6. FINANCIAL RISK MANAGEMENT

In accordance with the Investment Policy, WCB manages investment risk by maintaining a well-diversified portfolio, both across and within asset classes, and engages fund managers encompassing a broad range of investment philosophies and styles.

WCB management is responsible for monitoring performance, recommending changes to the Investment Policy and selecting fund managers. The Board of Directors is ultimately responsible for governance and strategic direction of the investment portfolio. From time to time, WCB retains independent consultants to benchmark the performance of its fund managers and to advise on the appropriateness and effectiveness of its Investment Policy and practices. The Board of Directors approves changes to the Investment Policy.

From time to time, WCB's investment portfolio may contain derivatives as part of an asset-liability management strategy for risk mitigation, but does not contain any derivatives for speculative or trading purposes.

The following sections describe WCB's financial risk exposures and related mitigation strategies.

Market risk

WCB is exposed to market risk, which is the risk that the fair value or future cash flows of its investments in publicly traded shares listed on domestic and foreign exchanges and bonds traded over the counter through broker-dealers will fluctuate in the future because of price changes. As well, WCB holds units in private pooled funds for institutional investors that also invest in shares and bonds. Both direct and indirect investments are exposed to economic changes and other fluctuations in domestic and global capital markets, as well as risks specific to issuers that may affect the market value of their securities.

Credit risk

Credit risk related to financial instruments arises from the possibility that the counterparty to an instrument fails to discharge its obligation to WCB. Counterparties for derivative contracts will have at least an A– credit rating or equivalent from a recognized credit-rating agency. Issuers of debt instruments will have at least a BBB– or equivalent score from a recognized credit-rating agency or must meet other stringent investment criteria. Specific rules have been established to ensure that the credit ratings of counterparties do not fall below a threshold acceptable to WCB. WCB does not anticipate that any counterparties will fail to meet their obligations.

Securities-lending risk

To generate additional income, WCB may lend any of its investments to eligible third parties for short periods. These loans are secured against loss with cash or readily marketable securities having a minimum fair value of 100% of the loan. As of December 31, 2006, outstanding securities on loan amounted to $472,739 ($2005 – $334,100).

Currency risk

Currency risk is the risk that the value of financial assets and liabilities denominated in foreign currencies will fluctuate due to changes in their respective exchange rates.

In its pooled fixed-income investment, WCB is exposed to exchange rate volatility that is managed through forward foreign-exchange contracts and cross-currency interest rate swaps.

For its foreign-equity investments, WCB utilizes a currency overlay to hedge 50% of the aggregate currency exposure. The currency overlay is an indexing strategy executed through foreign-exchange forward contracts on the U.S. dollar, Euro and other major currencies. Hedge accounting has not been applied to these hedging arrangements. The table in the derivatives section below presents the hedging exposure (notional principal) as well as the fair value of the currency overlay position as at December 31, 2006. During 2006, net cash payments to settle foreign-exchange forward contracts in the currency overlay were $22,496 (2005 – $4,631 net receipts) (Note 13).

Inflation risk

Inflation risk is the risk that a general increase in price level may result in loss of future purchasing power for current monetary assets. To mitigate the effect of inflation on WCB's future liabilities, the portfolio holds Canadian real return bonds, which are indexed to the annual change in the Canadian Consumer Price Index. The table following the interest rate risk section below presents the remaining terms to maturity and related yields of the conventional and real return bond portfolios.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. WCB's investment portfolio is exposed to interest rate risk through participation in a conventional Canadian bond pool and through internally managed direct holdings of fixed income instruments. The table below presents the remaining terms to maturity at fair value, along with the average effective yields for each maturity, for fixed-income investments exposed to inflation and interest rate risk as at December 31, 2006:

($ thousands)	Remaining Term to Maturity					
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	2006	2005
Canadian real return bonds[1]	$ -	$ -	$ -	$ 384,638	$ 384,638	$389,772
Average effective yields				1.77%	1.77%	1.44%
Canadian conventional bonds[1]	42,252	75,907	133,483	118,323	369,965	-
Average effective yields	4.18%	4.20%	4.26%	4.22%	4.23%	-
Canadian conventional bonds[2]	77,044	811,733	691,323	726,615	2,306,715	2,176,219
Average effective yields	3.75%	4.52%	4.63%	4.84%	4.63%	4.47%
	$ 119,296	$887,640	$ 824,806	$1,229,576	$3,061,318	$2,565,991

[1] Direct holdings internally managed.
[2] Indirect holdings externally managed through pooled funds.

Derivatives

The table below summarizes the fair value of the WCB's derivative portfolio of open contract positions, with their remaining terms to maturity, as at December 31, 2006. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional amounts are not indicative of the credit risk associated with such derivative contracts and are not recognized in these financial statements. WCB's credit exposure is represented by the replacement cost of all outstanding contracts in a receivable (positive fair value) position.

($ thousands)	Remaining Term to Maturity			2006		2005	
	Within 1 Year	1 to 5 Years	5 to 10 Years	Notional Principal	Fair Value	Notional Principal	Fair Value
Equity index swaps[1]	91%	9%	-	$ 243,087	$ 8,914	$ 290,302	$ 11,648
Equity index futures contracts[1]	100%	-	-	48,486	478	41,006	241
Bond index swaps[1]	100%	-	-	637,284	932	86,191	887
Interest rate swaps[1, 3]	2%	55%	43%	1,524,209	999	100,177	2,514
Cross-currency interest rate swaps[1, 3]	11%	19%	70%	144,596	2,336	162,620	9,822
Currency overlay forward contracts[2]	100%	-	-	3,096,824	(13,971)	1,392,062	(586)
Forward foreign-exchange contracts[1]	100%	-	-	152,675	(837)	74,983	(723)
Swap option contracts[1]	73%	10%	17%	2,132,708	(1,557)	-	-
Credit default swaps[1]	1%	15%	84%	1,126,274	685	65,473	515
				$ 9,106,143	$ (2,021)	$ 2,212,814	$ 24,318

[1] Indirect exposure through pooled funds for notional amount and fair value.
[2] Direct exposure through segregated funds for notional amount and fair value.
[3] Subject to hedge accounting.

7. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,092	$ -	$ 1,092	$ 1,092
Buildings	38,646	14,875	23,771	23,858
Equipment	8,410	6,973	1,437	1,394
Computer software	90,326	71,444	18,882	12,914
Software under development	6,847	-	6,847	12,512
	$ 145,321	$ 93,292	$ 52,029	$ 51,770

8. PAYABLES AND ACCRUALS

($ thousands)	2006	2005
Partners in Injury Reduction rebates	$ 75,806	$ 78,259
Accrued staff benefits	23,184	20,534
Other	32,815	17,534
	$ 131,805	$ 116,327

Partners in Injury Reduction (PIR) rebates are paid to those employers that have met the eligibility requirements. The estimated rebate amount is based on several factors including premiums paid, year-over-year improvement on claims experience, and safety performance relative to industry benchmarks, among others. Historically, the PIR rebate accrual has ranged from 6% to 8% of total processed premiums.

9. DIVIDENDS PAYABLE

In accordance with the Funding Policy, the Board of Directors authorized a special dividend for 2006 with final approval of the 2006 audited financial statements. Dividends of $441,937 (2005 – $433,033) are net of an adjustment of $1,407 to the 2005 accrual. Dividends payable for 2006 of $443,344 (2005 – $433,033) represent amounts owing to employers that have met the eligibility criteria for the special dividend during the year.

10. CLAIM BENEFIT LIABILITIES

As at December 31, 2006, claim benefit liabilities are estimated by WCB's internal actuary and independently reviewed by an external actuary. Claim benefit liabilities include a provision for all benefits provided by current legislation, WCB policies and administrative practices. It also includes a provision for the future expenses of administering those benefits. No provision has been made for claims related to known latent occupational diseases where the claim has not yet been reported and the year of disablement would be in a subsequent period.

The claim benefit liabilities of WCB are of a long-term nature, and the actuarial assumptions and methods used to calculate the reported claim benefit liabilities therefore are based on considerations of future expenditures over the long term. Changes in future conditions within one year of the financial statement date could require a material change in the recognized amounts.

These future expenditures are expressed in constant dollars discounted at the real rate of return on investments, i.e., the difference between expected investment earnings and the expected increase in benefits payable.

Wage-based disability payments and rehabilitation and claim administration costs are discounted at the rates shown in the table below. Health care costs are ultimately discounted at negative 0.86% (2005 – negative 0.86%) to reflect expected higher increases in health care costs and utilization.

The table below presents key assumptions used to determine the claim benefit liabilities:

	2006	2005
Liability discount rates		
General discount rate	**3.25%**	3.25%
Wage-based disability payment rate	**3.75%**	3.75%
Rehabilitation and claim administration rate	**2.25%**	2.25%
Health care rate	**–0.86%**	–0.86%

These net discount rates are based on underlying assumptions of 5.83% (2005 – 5.83%) per annum investment earnings, 2.50% (2005 – 2.50%) growth in the Consumer Price Index, 3.50% (2005 – 3.50%) growth in rehabilitation and claim administration costs, and 6.75% (2005 – 6.75%) growth in health care costs.

The table below presents a breakdown of WCB's total claim benefit liabilities by category as at December 31, 2006, with details of the transactions during the year:

($ thousands)	Short-Term Disability	Long-Term Disability	Survivor Benefits	Health Care	Rehab-ilitation	Claim Admin-istration	2006	2005
Claim benefit liabilities, beginning of year	$ 413,200	$1,893,800	$ 438,400	$1,135,700	$ 115,400	$ 169,400	$4,165,900	$3,921,300
Add:								
Claim costs incurred:								
Current year injuries	156,258	171,471	21,098	267,494	26,027	75,703	718,051	660,374
Prior years' injuries	(5,980)	28,897	6,822	106,669	(9,751)	32,304	158,961	200,598
	150,278	200,368	27,920	374,163	16,276	108,007	877,012	860,972
	563,478	2,094,168	466,320	1,509,863	131,676	277,407	5,042,912	4,782,272
Deduct:								
Claim payments made:								
Current year injuries	73,858	1,871	1,298	104,394	2,027	20,603	204,051	182,574
Prior years' injuries	87,720	124,197	39,922	123,169	22,149	44,804	441,961	433,798
	161,578	126,068	41,220	227,563	24,176	65,407	646,012	616,372
Claim benefit liabilities, end of year	$ 401,900	$1,968,100	$ 425,100	$1,282,300	$ 107,500	$ 212,000	$4,396,900	$4,165,900

Changes in claim benefit liabilities

The table below is a reconciliation of the changes in the claim benefit liabilities during the year:

($ thousands)	2006	2005
Claim benefit liabilities, beginning of year	$ 4,165,900	$ 3,921,300
Add:		
Provision for current year injuries	514,000	477,800
Interest accrued on the liabilities	229,400	223,400
Difference between actual and expected long-term cost of living adjustments and inflation	40,800	(34,100)
Changes in actuarial methods and assumptions:		
Claim admin. liability relating to the Appeals Commission[1]	23,600	-
Other changes	(15,400)	91,200
	4,958,300	4,679,600
Deduct:		
Payments for prior years' injuries, excluding self-insured employers	434,569	426,807
Claim cost experience lower than expected	126,831	86,893
	561,400	513,700
Claim benefit liabilities, end of year	$ 4,396,900	$ 4,165,900

[1] A provision for future Appeals Commission expenses for administering appeals related to existing claims was established effective December 31, 2006.

Sensitivity of actuarial assumptions

The most significant assumption in the determination of the claim benefit liabilities is the net discount rate. The net discount rate is the assumed rate of return in excess of the assumed inflation rate. A reduction in the assumed net discount rate would increase the actuarial present value of the claim benefit liabilities.

Health care benefits represent approximately 29% of the claim benefit liabilities. An increase in the assumed excess health care inflation rate (above the assumed inflation rate) would result in an increase in the claim benefit liability for health care.

The table below presents key assumptions used to determine the claim benefit liabilities and the sensitivity of the liabilities to an immediate 0.25% increase or decrease in the assumed rates:

Effect of assumption changes on claim benefit liabilities

($ millions)	2006		2005	
+/– % change on assumed rates	**+0.25%**	**–0.25%**	+0.25%	–0.25%
Net discount rate	**$ (115)**	**$ 119**	$ (104)	$ 115
Excess health care inflation rate	**$ 40**	**$ (38)**	$ 36	$ (34)

11. EMPLOYEE FUTURE BENEFITS

Pension plans

Employee post-retirement benefits are provided through multi-employer defined benefit pension plans sponsored by the Province of Alberta, namely the Management Employees Pension Plan (MEPP) and Public Service Pension Plan (PSPP). The current employer contribution rate to MEPP is 18.0% of pensionable earnings, with the next actuarial review due no later than December 31, 2007. The contribution rates for PSPP (effective January 1, 2007) will be 6.69% up to YMPE[1] and 9.55% over YMPE, an 8.4% increase over 2006 rates.

For the year ended December 31, 2006, the expense for these pension plans is equivalent to their aggregate annual contributions of $6,184 (2005 – $5,873).

Supplemental executive retirement plan

WCB sponsors a non-contributory supplemental executive retirement plan (SERP), with the WCB Accident Fund covering the obligations of the plan. The plan ensures that executives whose earnings exceed the threshold earnings for the maximum pension benefit permitted under the federal Income Tax Act will receive pension benefits based on their total earnings.

Long-term disability plan

WCB administers a non-contributory long-term disability (LTD) income continuance plan for its employees, with the WCB Accident Fund covering the obligations of the plan.

At December 31, 2006, the actuarial valuation reported an accrued benefit obligation (actuarial present value of cumulative benefits attributed to employee services to the reporting date) of $10,466 (2005 – $11,340). The discount rate used in determining the accrued benefit obligation was 4.56% (2005 – 4.44%). The assumed rate of salary escalation for participants in the plan was 3.50% (2005 – 3.50%).

[1] Year's Maximum Pensionable Earnings under the Canada Pension Plan ($42,100 in 2006, $43,700 in 2007)

The table below is a summary of WCB's employee future benefit plans:

($ thousands)	2006				2005			
	Pensions	**LTD**	**SERP**	**Total**	Pensions	LTD	SERP	Total
Accrued benefit liability, beginning of year	**$ -**	**$ 13,779**	**$ 329**	**$ 14,108**	$ -	$13,629	$ 140	$ 13,769
Pension expense[1]	**6,184**	**1,935**	**175**	**8,294**	5,873	1,232	109	7,214
Benefit payments	**(6,184)**	**(1,457)**	**-**	**(7,641)**	(5,873)	(1,082)	-	(6,955)
Actuarial (gain) loss	**-**	**(786)**	**162**	**(624)**	-	-	80	80
Actuarial benefit liability, end of year[2]	**$ -**	**$ 13,471**	**$ 666**	**$ 14,137**	$ -	$13,779	$ 329	$ 14,108

[1] Pension expense comprises current service cost and interest.
[2] Accrued benefit liabilities are included in payables and accruals.

12. PREMIUM REVENUE

($ thousands)	**2006**	2005
Premiums	**$ 1,079,098**	$ 1,057,169
Deduct: Partners in Injury Reduction rebates	**75,806**	78,259
	$ 1,003,292	$ 978,910

13. INVESTMENT REVENUE

($ thousands)	2006	2005
Fixed income[1]		
Conventional bonds	$ 127,943	$ 130,112
Real return bonds	18,283	23,826
Cash and cash equivalents[2]	3,680	1,506
	149,906	155,444
Real estate fund[1]	21,734	13,126
Equities[1]		
Domestic:		
Canada	266,163	243,525
Foreign:		
Global[3]	138,090	73,632
Emerging markets	146,350	74,071
	550,603	391,228
	722,243	559,798
Deduct:		
Other investment expense:		
Provision for impairment write-down	2,740	2,828
Investment-related administration expense[4]	1,330	756
	$ 718,173	$ 556,214

[1] Investment revenue is net of external manager fees and expenses of $11,063 (2005 – $9,155) charged directly to each fund. External expenses (such as transaction costs, management, custodial and audit fees, etc.) are netted against the respective revenue sources.

[2] Cash equivalents represent a pooled investment in a portfolio of high-quality, short- to mid-term, highly liquid fixed-income securities with an average effective annual yield of 4.55% (2005 – 3.62%).

[3] Global-equity income includes a loss of $35,881 (2005 – $4,045 gain) for the foreign-currency overlay.

[4] WCB internal expenses such as investment administration and accounting are netted against investment income, but not attributed to specific revenue sources.

14. OTHER REVENUE

($ thousands)	2006	2005
Other	$ 236	$ 299
Millard Health[1]	1,897	1,464
	$ 2,133	$ 1,763

[1] Millard Health revenue is net of operating expenses of $23,728 (2005 – $23,642).

15. ADMINISTRATION EXPENSES

($ thousands)	2006	2005
Salaries and employee benefits	$ 97,809	$ 90,796
Office and communications	22,066	22,570
Amortization of property, plant and equipment	8,325	8,584
Building operations	4,655	4,332
Consulting fees	2,423	2,968
Travel and vehicle operation	989	1,014
Other	261	221
	136,528	130,485
Deduct:		
Claim administration costs	65,407	62,825
Investment management expenses charged to investment revenue	1,330	756
Recovery of costs	3,364	3,704
	$ 66,427	$ 63,200

16. SALARIES AND BENEFITS

The table below presents total compensation of the directors and senior management of WCB following the recommendations of the Salary and Benefits Disclosure Directive issued by the Treasury Board of Alberta:

	2006				2005
	Base Salary[1]	Other Cash Benefits[2]	Other Non-Cash Benefits[3]	Total	Total
Chair, Board of Directors[4]	$ 77,146	$ -	$ 3,386	$ 80,532	$ 73,659
Board Members[4]	139,146	-	10,133	149,279	166,282
President and Chief Executive Officer	255,000	101,250	70,761	427,011	379,713
Vice President, Customer Service and Disability Management	182,320	54,080	47,214	283,614	258,466
Vice President, Customer Service and Risk Management	182,320	54,080	51,832	288,232	258,556
Vice President, Communications and Information Management	169,260	51,199	46,695	267,154	250,911
Vice President, Employee and Corporate Services	161,070	46,267	40,137	247,474	229,943
Chief Financial Officer[5]	169,110	49,411	43,627	262,148	176,096
Secretary and General Counsel	161,070	46,000	45,027	252,097	232,083

[1] Base salary includes regular base pay, vacation pay and honoraria.

[2] Other cash benefits include performance awards, special incentive pay and car allowances.

[3] Other non-cash benefits include employer's share of employee benefits and contributions or payments made to or on behalf of employees. It is comprised of Canada Pension Plan, Employment Insurance, current service cost of pension plans, medical benefits, group life insurance, disability plans and professional memberships. No amounts are included for the value of parking and interest-free computer purchase loans.

[4] The Chair of the Board of Directors and the nine board members are part-time positions. There were two board member vacancies for a period of time during 2006.

[5] The former Chief Financial Officer's last day of employment was October 15, 2005. The current Chief Financial Officer commenced employment January 23, 2006.

17. SELF-INSURED EMPLOYERS

The financial statements include the effects of transactions on behalf of self-insured employers that directly bear the cost of their workers' claims and an appropriate share of administration expenses. Currently, the Federal Government is the only self-insured employer. This is a contractual relationship in accordance with the Government Employees Compensation Act. Certain government-related entities and railways are responsible for the cost of injuries to their workers that occurred when the employers were self-insured in prior years.

Included in the balance sheet is $1,545 (2005 – $760) for receivables.

Aggregate amounts of premiums and offsetting expenses included in the statement of operations are presented below:

($ thousands)	2006	2005
Premium revenue	$ 9,706	$ 8,936
Claim costs incurred	$ 8,195	$ 7,462
Administration expenses	1,511	1,474
	$ 9,706	$ 8,936

18. INJURY REDUCTION

WCB has a statutory obligation to reimburse the Alberta Minister of Finance a portion of the costs associated with administration of the Occupational Health and Safety Act. Funding is also provided to industry-sponsored safety associations to promote improved workplace safety practices.

($ thousands)	2006	2005
Occupational Health and Safety	$ 14,100	$ 12,100
Safety associations	8,126	6,816
	$ 22,226	$ 18,916

19. APPEALS COMMISSION

The Appeals Commission, which operates independently of WCB, is administered by the Alberta Ministry of Employment, Immigration and Industry. In accordance with Section 12 of the Workers' Compensation Act, the operating costs of the Appeals Commission are funded by WCB from the Accident Fund.

20. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Alberta Crown corporations, departments, agencies, boards and commissions related to WCB by virtue of common influence by the Government of Alberta. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Statutory funding obligations relating to Occupational Health and Safety and the Appeals Commission are in accordance with the applicable legislation and regulations.

The amounts outstanding at December 31, 2006, and transactions throughout the year are as follows:

($ thousands)	2006	2005
Receivables	$ 1,420	$ 1,759
Payables and accruals	$ 5,684	$ 2,015
Premiums	$ 7,580	$ 8,872
Expenses	$ 23,107	$ 20,661

21. COMMITMENTS

WCB has obligations under long-term non-cancellable contracts for office space, leased equipment and commitments for purchases of goods and services. The following is a schedule of future expenditures:

($ thousands)	2006	2005
2006	$ -	$ 14,117
2007	**17,698**	10,113
2008	**10,412**	6,112
2009	**2,910**	522
2010	**1,252**	162
Beyond	**3,035**	3,035
	$ 35,307	$ 34,061

22. CONTINGENCIES AND INDEMNIFICATION

Legal proceedings

WCB is party to various claims and lawsuits that are currently being contested. In the opinion of management, the outcomes of such claims and lawsuits are not determinable; however, based on the total amount of all such actions, WCB has concluded that the outcomes will not have a material effect on the results of operations or on WCB's financial position.

Indemnification agreements

In the normal course of operations, WCB enters into contractual agreements that contain standard contract terms that indemnify certain parties. The terms of these indemnification clauses will vary based upon the contract and/or the occurrence of contingent or future events, the nature of which prevents WCB from making a reasonable estimate of the potential amount that may be payable to those contractual parties. Such indemnifications are not significant, nor has WCB made any payments or accrued any amounts in the financial statements in respect of these indemnifications.

23. BUDGET

The Board of Directors approved the 2006 budget in October 2005.

24. COMPARATIVE FIGURES

Certain comparative figures for 2005 have been reclassified where required to conform to the current year's presentation and disclosure.

Glossary of Financial Terms

Actuarial required rate of return

The rate of return on actuarially matched investment assets that will generate sufficient income to cover the interest requirement on the liability. Actuarially matched assets represent the sum that must be invested to earn a rate of return (identical to the liability discount rate) to fully discharge the actuarial liability at maturity. See also **liability discount rate**.

Asset-liability management

A risk management approach to ensure sufficiency of resources to fully discharge specified obligations by matching the risk characteristics of invested assets to those liabilities for such factors as yields, duration, credit rating, etc.

Asset-liability study

A financial model for determining the appropriate amount and mix of investment assets, given a specified level of risk, to generate a return that is sufficient to fund the interest requirement of matched claim benefit liabilities.

Average premium rate

Calculated as total revenue requirements (see **fully funded claim costs**) divided by the projected insurable earnings for the premium year.

Comprehensive income

Change in equity (or **net assets**) of an enterprise during a period from all transactions and events other than investments by and distributions to owners. Comprehensive income is comprised of operating income and other comprehensive income, which includes those revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income but excluded from operating income.

Currency overlay

Outsourcing of foreign-currency risk management to a specialist firm, known as the overlay manager. This strategy is used in international investment portfolios to separate the management of currency risk from the asset allocation and security selection decisions of the fund managers.

Derivative

A **financial instrument** whose characteristics and value depend upon the characteristics and value of an underlying security, typically a commodity, bond, equity or currency. Examples of derivatives include futures and options. Derivatives are used to manage the risk associated with the underlying security, to protect against fluctuations in value or to profit from periods of inactivity or decline.

Fair value

The amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In the context of investments, fair value is generally synonymous with market value.

Financial instrument

Any contract that gives rise to a financial asset (e.g., cash equivalent, accounts or note receivable, share security) of one party and a financial liability (e.g., accounts or note payable, bond) or equity instrument (e.g., stock option, warrant) of another party.

Financial risk

The possibility or chance that an investment's return will be different than expected, either positively or negatively. In general, financial risk has a negative meaning, as in the possibility of losing some or all of the original investment, or adverse changes in its cash flows. For a specific investment, risk is usually measured by calculating the standard deviation of its historical or average returns. See also **risk**.

Fully funded claim costs

The aggregate of costs of claims arising in the current year, administration costs related to those claims, a provision for future costs of current year claims, general administration expenses for WCB operations, transfer funding levies for workplace safety programs and Appeals Commission, and ongoing funding of the Occupational Disease Reserve. Fully funded claim costs form the basis for the revenue requirements for annual rate-setting purposes.

Funded position

The excess of total assets less total liabilities, expressed either in dollar terms (see **net assets**) or as a ratio of total assets to total liabilities. The funded position is the measure of financial solvency or the sufficiency of assets to meet all obligations. It is the aggregate amount of accumulated equity generated by operating surplus, reserves and other comprehensive income.

Funded ratio

The funded position expressed as a percentage of total liabilities, indicating the amount of accumulated surplus and investment holding gains and losses, and reserves available to fund unexpected increases in liabilities.

Hedging

An activity designed to modify an entity's exposure to one or more risks by creating an offset between changes in the fair value of or the cash flows attributable to the hedged item and the hedging item (or the changes resulting from a particular risk exposure relating to those items).

Hedge accounting

A method for recognizing the gains, losses, revenues and expenses associated with the items in a hedging relationship such that those gains, losses, revenues and expenses are recognized in net income in the same period when they would otherwise be recognized in different periods. The relationship between a hedged item and a hedging item must be based on a specific risk exposure, with a specific risk management objective and strategy and quantitative methodology for assessing the effectiveness of the hedge.

Liability discount rate

The rate (also called the **actuarial required rate of return** when applied in a portfolio context) used to discount the actuarial projections of all future liabilities back to present value.

Meredith Principle

In his report on workers' compensation in 1913, then Chief Justice of Ontario Sir William Meredith outlined a framework that is now commonly referred to as the Meredith Principle:

- Workers receive compensation benefits regardless of fault for work-related injuries.
- Employers share collective liability for costs of work-related injuries, and in return employees waive the right to sue.
- Injured workers are entitled to prompt payment of benefits and future payments are guaranteed.
- The workers' compensation agency has exclusive jurisdiction over all legal matters arising out of the enabling legislation.
- The agency is financially independent of government and enjoys full autonomy over all administrative and adjudicative matters.

Net assets

The excess of total assets less total liabilities; another expression of **funded position** in dollar terms. When total liabilities exceed total assets, the deficit is known as unfunded liability.

Real rate of return

The annual percentage return realized on an investment, adjusted for changes in prices due to inflation or deflation.

Return

The gain or loss on a security in a particular period. The return consists of the income and the capital gains or losses associated with an investment. The return is usually quoted as a percentage of the investment's market value (market return) or its book value (book return). Performance of an investment or a pool of investments is the actual rate of return over a given evaluation period. Total return includes interest, capital gains/losses, dividends and distributions realized over a given period.

Risk

In general usage, risk is the possibility or chance that a future event or outcome will be different than expected, either positively or negatively. See also **financial risk**.

	2006	2005
Number of workers covered	**1,649,736**	1,539,732
Time-lost claim rate (per 100 workers)[1]	**2.3**	2.4
Number of new claims reported	**181,159**	168,685
Number of time-lost claims[1]	**38,500**	37,100
Number of recurrent claims[2]	**15,589**	15,471
New non-economic loss and permanent disability awards	**2,827**	3,053
Fatality claims accepted	**124**	143
Ineligible time-lost claims (percentage of all time-lost claims)	**6.5%**	7.6%
Number of new requests for review to the Dispute Resolution and Decision Review Body	**2,865**	3,311
Return-to-work percentage	**92.4%**	91.0%
Claim costs (thousands)	**$877,012**	$860,972
Registered employers	**127,701**	117,337
Premium revenue (thousands)	**$1,003,292**	$978,910
Average collected premium rate (per $100 of insurable earnings)	**$1.63**	$1.83
Investment revenue (thousands)	**$718,173**	$556,214
Funded position (thousands)	**$1,812,671**	$1,526,242
Funded ratio (per cent funded)[3]	**136.5%**	132.4%

[1] Time-lost claims and the time-lost claim rate are projected. This approach is taken to ensure claims for accidents occurring in 2006 but not reported by year-end are considered.

[2] Previously inactive claims reopened for a number of reasons including payments for medical aid or requests for further compensation benefits.

[3] Funded ratio includes Fund Balance and Occupational Disease Reserve.

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WCB Workers' Compensation Board Alberta

Workers' Compensation Board - Alberta
P.O. Box 2415, Edmonton, AB T5J 2S5

www.wcb.ab.ca • 1-866-922-9221

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